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Journey in Government Monopsony

The Inter-organizational Relationship between the NHS Education Buyer/Commissioner and Middlesex University 1995-2013

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Journey in Government Monopsony

The Inter-organizational Relationship between the NHS Education
Buyer/Commissioner and Middlesex University
1995 - 2013

Donal Joseph Walsh

A thesis submitted for the DBA (Higher Education Management)

University of Bath
School of Management

February 2016

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<u>Contents</u>	<u>Page</u>
List of Figures	7
List of Tables	7
List of Exhibits	7
Acknowledgements	8
Abstract	9
List of Abbreviations and Acronyms	10
Chapter 1 Introduction	12
1.1 Aims, Definitions, Empirical Focus and Nature of the Research Inquiry	12
1.2 Empirical Relevance of the Inquiry	12
1.3 Theme, Findings, Thesis, Further Research and the Need for Change	13
1.4 Research Questions	14
1.5 Approach and Theoretical Perspective	15
1.6 Data, Access, Methods and Validity	15
1.7 Plan of the Dissertation	17
Chapter 2 Approach, Concepts, Explanatory Perspectives, and Issues	20
2.0 Introduction: Selection of Approach – Assumptions and Issues	20
2.1 Historical Institutionalism [HI]	21
2.1.1 Historical Dependence [HD] (i): Origins and Types	22
2.1.2 HD (ii): Concepts	23
2.1.2.1 Forms of HD	23
2.1.2.2 Increasing Returns and Path Dependence	23
2.1.2.3 Sensitivity to Initial Conditions and Early Path Dependence	23
2.1.2.4 HD Processes: Potentially a Variety of Types	24
2.1.3 HD (iii): Explanations of Institutional Reproduction	24
2.2 Issues in HI (i): Explanations of Institutional Change	25
2.3 Issues in HI (ii): Concepts Compatibility – Institutions, Agency and HD	29
2.4 Issues in HI (iii): Concept of Agent and Relations of Power between Agents	31
2.4.1 Concept of Agent	31
2.4.2 Relations of Power between Agents	32
2.4.2.1 Power: Concepts and Perspectives	32
2.4.2.2 Foucault's Theory of Power	34
2.4.2.3 Sources of Power and a Theory of Power in IOR	35
2.4.2.4 IOR Institutional Environment – Monopsony and Monopsony Power	38
2.5 Issues in Monopsony and Government Monopsony: IOR Stability over Time	40
2.5.1 A Concept of IOR Stability over Time	41
2.5.2 IOR Stability over Time in Monopsony – Supplier's Standpoint	42
2.5.3 IOR Stability over Time in Monopsony – Monopsonist's Standpoint	43
2.5.4 Characteristics of Government Monopsony (M_G)	44
2.5.5 Implications for IOR Stability over Time in M_G	46
2.6 Evidence and Gaps in Research into Monopsony and M_G	46
2.7 A Theoretical Framework	48

<u>Contents continued</u>	<u>Page</u>
Chapter 3 Methodology	51
3.0 Overview	51
3.1 Overall Questions of the Research Inquiry	51
3.2 Strategy of the Research Inquiry	51
3.2.1 Design	51
3.2.2 Focus and Method	52
3.2.3 Boundaries of the Case History	53
3.3 Procedure and Frameworks	53
3.3.1 Part One: Development of Descriptions, Findings and Analysis	53
3.3.1.1 Descriptions	53
3.3.1.2 Findings	55
3.3.1.3 Analysis	70
3.3.2 Part Two: Development of Interpretations (1)	70
3.3.3 Part Three: Development of Interpretations (2)	74
3.3.4 Part Four: Development of Explanations	77
3.3.5 Part Five: Development of Critique and Recommendations	80
3.4 Validity	80
3.4.1 Construct Validity	80
3.4.2 Access, Data Coverage and Data Limitations	81
3.4.3 Researcher Bias	84
3.4.4 Reactivity	84
Chapter 4 Origins, Initial Conditions and Persistence	85
4.0 Introduction	85
4.1 Origins and Initial Conditions of the Government Monopsony (M_G)	
4.1.1 NHS	87
4.1.2 Development of Non-Medical Occupations and Professions	92
4.1.3 UK Higher Education	95
4.1.4 A Confluence of Events, a Critical Juncture and an M_G Outcome	98
4.2 Origins of the Inter-Organizational Relationship (IOR)	100
4.3 IOR Context 1995-2013: Persistence of the Conditions of M_G	101
Chapter 5 IOR Key Outcomes, Performance and Stability: Findings and Analysis	102
5.0 Introduction	102
5.1 Contracts Key Outcomes and Stability Impacts	102
5.1.1 Background	102
5.1.2 Definitions of Contracts Key Outcomes Dimensions	103
5.1.3 Contracts Key Outcomes stability Impacts	103
5.2 Outputs Key Outcomes and Stability Impacts	107
5.2.1 Definitions of Outputs Key Outcomes Dimensions	107
5.2.2 Outputs Key Outcomes Stability Impacts	107
5.3 Price Key Outcomes and Stability Impacts	111
5.3.1 Definitions of Price Key Outcomes Dimensions	111
5.3.2 Price Key Outcomes Stability Impacts	112

<u>Contents continued</u>	<u>Page</u>
5.4 Performance Key Outcomes and Stability Impacts	119
5.4.1 Definitions of Performance Key Outcomes Dimensions	119
5.4.2 Performance Key Outcomes Stability Impacts	119
5.4.2.1 IOR Performance Assessments made by the GM	120
5.4.2.2 IOR Performance Assessments made by the Regulatory Bodies	120
5.4.2.3 MU Assessments of the IOR Financial Performance	121
5.4.2.4 MU assessments of the IOR Non-Financial Performance and Future	122
5.5 Analysis of the IOR Stability over Time: Dimensions, Components and Overall	124
5.5.1 Stability over Time on the IOR Dimensions	124
5.5.2 Stability over Time on the IOR Components	126
5.5.3 Change and Stability over Time of the IOR Overall	127
Chapter 6 Interpretations and Explanations of the IOR In/stability over Time	129
6.0 Introduction	129
6.1 1995/96: Initial Conditions and Historical Legacies; Mutual Dependence	130
6.1.1 Interpretation of IOR Stability Impacts 1995/96	131
6.1.2 Explanation of IOR Stability Impacts 1995/96	131
6.2 1996-2004: Collaboration and Growth; Historical and Resource Dependence	134
6.2.1 Interpretation of IOR Stability Impacts 1996/97–2004/05	135
6.2.2 Explanation of IOR Stability Impacts 1996/97 – 2004/05	139
6.3 2005-2007: Exogenous Change; Drift and Adaptation	146
6.3.1 Interpretation of IOR Stability Impacts 2005/06–2007-08	148
6.3.1.1 Exogenous Events and IOR Interim Contracts	148
6.3.1.2 Exogenous Events and GM Demand for Outputs	150
6.3.1.3 Exogenous Events and Price	152
6.3.1.4 2007/08: Key Endogenous Events and GM Decisions	154
6.3.2 Explanation of IOR Stability Impacts 2005/06-2007/08	155
6.3.2.1 Exogenous Change and IOR Objectives	155
6.3.2.2 Power Dependence Responses and Historical Dependencies	156
6.3.2.3 Relationship between HD, Resource Dependence and Events 2005-2007	161
6.4 2008-2013: A Critical Juncture, Exogenous Shock, Decline; Power Games	162
6.4.1 IOR Stability Impacts 2008/09-2012/13	164
6.4.1.1 Overview of Exogenous Events	164
6.4.1.2 Power Games and IOR Stability Impacts 2008-2013	166
6.4.1.2.1 Overview of Power Games 1-4	167
6.4.1.2.2 Trigger Events, Power Games, Players and Objectives	168
6.4.1.2.3 Power Game 1 – IOR Rules Change	170
6.4.1.2.4 Power Game 2 – Veto	171
6.4.1.2.5 Power Game 3 – Coalition and Lobbying	171
6.4.1.2.6 Power Game 4 – Exercise of Discretion	172
6.4.1.2.7 Moves in Power Games 1-4	173
6.4.1.2.8 Outcomes of Power Games 1-4	178
6.4.1.2.9 Power Dependence Responses and Historical Dependencies	179
6.4.1.2.10 Power Game 1: Strategies, Outcomes, Explanations	181
6.4.1.2.11 Power Game 2: Strategies, Outcomes, Explanations	181
6.4.1.2.12 Power Game 3: Strategies, Outcomes, Explanations	183
6.4.1.2.13 Power Game 4: Strategies, Outcomes, Explanations	184

<u>Contents continued</u>	<u>Page</u>
6.5 Historical Dependencies and Resource Dependencies 1995–2013	185
6.5.1 M _G Level	185
6.5.2 IOR Level	186
6.6 IOR Instability and Threatened Instability 1995-2013	187
6.6.1 Analysis of Explanations of IOR Instability and Threatened Instability 1995-2013	188
6.6.2 Overall Explanation of IOR Instability and Threatened Instability 1995-2013	193
6.6.3 Conclusion	194
Chapter 7 Summary	195
7.1 Approach, Perspective, Concepts and Frameworks	195
7.2 Origins, Initial Conditions and Persistence	195
7.3 IOR In/stability over Time, Performance and Stability Risk	196
7.4 Events, Responses, Historical Dependencies and IOR Stability Impacts	197
7.4.1 1995/96	198
7.4.2 1996-2004	198
7.4.3 2005-2007	199
7.4.4 2008-2013	201
7.4.5 How did the in/stability in the IOR come about?	204
Chapter 8 Conclusions	205
8.1 IOR In/stability 1995–2013	205
8.1.1 1995/96	205
8.1.2 1996-2004	206
8.1.3 2005-2007	207
8.1.4 2008-2013	208
8.2 Thesis - IOR Instability and Threatened Instability 1995-2013	209
8.3 A Journey in Government Monopsony 1995–2013	209
Chapter 9 Critique and Recommendations for Policy and Management	211
9.0 Introduction	211
9.1 Principal-Agent Theory (PAT)	211
9.2 Strengths and Limitations of PAT	212
9.2.1 Strengths of PAT	212
9.2.2 Limitations of PAT	212
9.3 Critique of M _G as an Approach to Public Sector Management	215
9.3.1 M _G and IOR Efficiency Outcomes	215
9.3.2 Conflict Management and Resolution	217
9.3.3 Evaluation	218
9.4 Update (January 2016) on NHS-HE Inter-sector Institutional Arrangements	219
9.5 Substantive Issues, Scenarios and Recommendations for Policy and Management	221
9.5.1 Substantive Issues	221
9.5.2 Scenarios and Recommendations for Policy and Management	223
9.6 NHS-HE Inter-sector Relationship Stability: Utopia or a Political Choice?	229

<u>Contents continued</u>	<u>Page</u>
Chapter 10 Research Issues, Claims, Contribution & Further Research Recommendations	231
10.0 Introduction	231
10.1 Further Research Recommendations: Development of an HI – Power Paradigm	233
10.2 Further Research Recommendations: Contribution, Critique and Accountability	233
References	234
Archive References	242
Annex A Professional Journal	246
A.0 Introduction	246
A.1 Summary	246
A.2 From Monitoring to Management of the External Environment of the Organization	246
A.3 Intellectual Frameworks and the Management of IOR	247
A.4 Distinguishing Tactical & Strategic Outcomes and the Potential for Transformative Change	247
A.5 Management of Intra-organizational Change Programmes	247
A.6 Lessons Learned about ‘Doing Research’	248
A.6.1 Levels of Analysis and Focus of the Inquiry	248
A.6.2 Scope of the Inquiry	248
A.6.3 Definition of Concepts	248
A.6.4 Practicality of Different Approaches to Data Analysis	249
Annex B The HE – NHS Relationship: A History; Alternative Futures	250
- A Report to the Council of Deans of Health	
Overview	251
Introduction	252
Current Arrangements	252
Current Issues	253
A History	254
Origins	254
Development	255
A Case History	256
Scope and Methods	256
Methodology	257
Findings and Theory	261
Explanations	277
Overall Conclusion	282
Alternative Futures	283
Issues	284
Existing Regime	285
Scenario	285
Recommendations	286
New Regime	291
A New Funding Model	291
Recommendations	302

Contents continued**Page****List of Figures**

Figure 1	Configurations of Power Dependence and Mutual Dependence	36
Figure 2	Theoretical Framework for Explanation of NHS – HE IOR In/stability	49
Figure 3	Conceptual Framework of NHS - HE IOR	71

List of Tables

1	IOR Key Outcomes: Dimensions, Definitions, Relation to IOR Stability	57
2	IOR Stability Impact Indicators, Types, Relations, Assumptions, Sources, and Rationale	66
3(i)	IOR Stability over Time - Assessments of Impacts on Key Outcomes Dimensions	70
3(ii)	IOR Stability over Time – Data Coverage	82
4(i)	IOR Events 1995/96 – 2012/13: Contracts	76
4 (ii)	IOR Events 1995/96 – 2012/13: Outputs, Price, and Performance	76
5(i)	Origins of the M_G – NHS Reforms Events and Timeline	86
5(ii)	Origins of the M_G –Development and Regulation of Nursing Events and Timeline	86
5(iii)	Origins of the M_G – UK Higher Education Events and Timeline	86
5(iv)	Origins of the IOR – Middlesex Polytechnic/University Events and Timeline	100
5(v)	IOR Dimensions and Stability Impact Assessments 1995/96	130
6	Net government expenditure on the UK NHS 1950/51 to 2010/11	87
7	Total Quantities (FTEs) of MU NHS Contracts Agreed Commissions 1995/96-2012/13	110
8	Middlesex University Quantities (FTEs) of all Students and of all NHS Students	111
9	Stability Impact Assessments of the IOR Dimensions 1995/96-2012/13	125
10	Stability Impact Assessments of the IOR Components and Performance 1995-2012/13	126
11	IOR Events 1995-2004	135
12	IOR Events 2005-2007	147
13	IOR Events 2008-2013	163
14(i)	IOR Stability HD Processes and Power Dependence Responses 1995/96-2004/05	141
14(ii)	IOR Stability HD Processes and Power Dependence Responses 2005/06-2007/08	157
14(iii)	IOR Stability HD Processes and Power Dependence Responses 2008/09-2012/13	180
15	IOR Stability HD Processes and Power Dependence Responses 1995/96-2012/13	79
16	Power Games 1-4: Relevant IOR Dimensions; Principal Players; Players' Objectives	169
17	Power Game 1: 'IOR Rules Change' – Moves and Final Outcome	174
18	Power Game 2: 'Veto' – Moves and Final Outcome	175
19	Power Game 3: 'Coalition and Lobbying' – Moves and Final Outcome	176
20	Power Game 4: 'Exercise of Discretion' – Moves and Final Outcome	177
21	Summary of Explanations of Instability & Threatened Instability on IOR Dimensions 1995-2013	189
22	IOR TRI and U Impacts 1995-2013 - Map of Explanations A, B and C on IOR Dimensions	191
23	'Efficiency' of New Public Management at IOR and M_G Levels 1995-2013	216
24	IOR Stability: Impacts 1995-2013; HEE and HEFCE Scenarios 2017/18	225
25	Recommendations for Policy and Management of NHS-HE Relationships	228
26	Research Key Issues, Claims, Contribution and Further Research Recommendations	232

List of Exhibits

1	Heads of Terms for IOR Contract 2000/01 – 2004/05	58
2	Heads of Terms for IOR Contract 2008/09 – 2012/13	59
3	Heads of Terms for IOR Contract 2012/13 – 2014/15	60
4	Floors and Ceilings to GM Annual Demand for Output Quantities	61
5	Definition of Full Economic Cost (FEC)	63
6	Potential Evaluation Criteria for a New Funding Model	229

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Abstract

This dissertation is about the in/stability over time of a contract-based inter-organizational relationship (IOR) which existed mostly under conditions of government monopsony (M_G).

The M_G consisted of the institutional arrangements between the NHS and Higher Education sectors in England for the provision of education for the NHS non-medical professional workforce. The IOR was between the NHS education buyer (the 'GM') and Middlesex University (MU).

An agent-centred historical institutionalism was used as the overall approach in the inquiry. The main components of the approach were resource dependence theory, concepts of historical dependence, and events in the IOR and its institutional and organizational environments. A multi-dimensional concept of IOR in/stability from the standpoints of the GM and MU which was grounded in the practices of the IOR was constructed. The inquiry traced the origins and subsequent development of the M_G and the in/stability of the IOR over an 18 year period, 1995 - 2013.

The main findings of the inquiry were:

- (1) The IOR originated in, and continued to exist mostly under conditions of M_G
- (2) The IOR became less stable over time from the standpoint of MU; reductions in IOR stability occurred in dimensions of risk relating to the future performance of the IOR
- (3) Instability and threatened instability in the IOR were brought about mostly by the exercise of power by the GM and by the power dependence responses of MU.

The thesis developed in the dissertation is that instability and threatened instability in the IOR were due mostly to a power imbalance in the IOR, in favour of the GM, between the GM and MU. The source of that power imbalance was a combination of:

- The resource dependency of MU on the IOR
- The conditions of M_G and bilateral monopoly under which the IOR existed.

The dissertation is concluded with a critique of M_G as a technique for public sector management. Recommendations are made for new NHS-HE inter-sector and IOR arrangements to be established which take account of power imbalances and relations of mutual dependence between stakeholders. Recommendations for further research are also made.

List of Abbreviations and Acronyms

AG	Auditor General, National Audit Office
BMP/NBP	'Benchmark Price' or 'National Benchmark Price'
BU	'Burden of History' Historical Dependence Process
CoDH	Council of Deans of Health
CPI	Contract Performance indicator
CPM	Contract Performance Management System
CNAA	Council for National Academic Awards
DH	Department of Health
DHA	District Health Authority
ECR	Education Commissioning Regime
EDA	Education Demand Assessment
EEAPOC	Environment, Events, Agency, Power, Outcomes and Consequences Conceptual Framework
EPD	'Early Path Dependence' Historical Dependence Process
F	'Founder' Historical Dependence Process
FEC	Full Economic Cost
FG	'Forgetting' Historical Dependence Process
FOI	Freedom of Information
FESC	Framework for procuring External Support for Commissioners
FSWT	Financial Strategy for Workforce Transformation
GM	Government Monopsonist e.g. NHS London
GT	Grounded Theory
HD	Historical Dependence
HE	Higher Education
HEC	Higher Education Corporation
HEE	Health Education England
HEFCE	Higher Education Funding Council for England
HEI	Higher Education Institution
HENSE	Health Education National Strategic Exchange Group
HI	Historical Institutionalism
HESA	Higher Education Statistics Agency
IC	'Initial Conditions' Historical Dependence
In/effectiveness	Ineffectiveness and Effectiveness
In/stability	Instability (U), Threatened Instability (TRI) and Stability (S)
IOR	Inter-organizational Relationship
ISR	Inter-sector Relationship
ITT	Invitation to Tender
JMC	JM Consulting Limited
KPI	Key Performance Indicator
LDHG	London Deans of Health Group
LEC	London Education Contract
MADEL	Medical and Dental Education Levy
M _G	Government Monopsony
MPET	Multi Professional Education and Training Levy
MP	Middlesex Polytechnic
MU	Middlesex University
NAO	National Audit Office
NCLSHA	North Central London Strategic Health Authority
NHS	National Health Service

List of Abbreviations and Acronyms continued

NHSL	NHS London or London Strategic Health Authority
NLCHS	North London College of Health Studies
NLC	North London Consortium
NMC	Nursing and Midwifery Council
NMET	Nursing and Midwifery Education and Training Levy
NSC	National Standard Contract
OBC	'Output Based Contracts' or 'Output Based Commissioning'
PAR	Principal-Agent Relationship
PAT	Principal-Agent Theory
PBR	Payment by Results
PCT	Primary Care Trust
QAF	Quality Assurance Framework
QCPM	Quality and Contract Performance Management System
RCI	Rational Choice Institutionalism
RCN	Royal College of Nursing
RD	Resource Dependence
RDT	Resource Dependence Theory
RHA	Regional Health Authority
RRL	Revenue Resource Limit
S	Stable
SI	Sociological Institutionalism
SIFT	Strategic Infrastructure for Training
SHA	Strategic Health Authority
SRB	Statutory and Regulatory Body
SSR	Staff Student Ratio
TCT	Transaction Cost Theory
TRI	Threatening Entry to a Range of Instability
U	Unstable
UKCC	United Kingdom Central Council for Nursing, Midwifery and Health Visiting
UKHEAC	UK Healthcare Education Advisory Committee
UUK	Universities UK
VFM	Value for Money
WCC	World Class Commissioning
WDC	Workforce Development Confederation
WP10	Working Paper 10 of the 1989 White Paper 'Working for Patients'

Chapter 1

Introduction

1.1 Aims, Definitions, Empirical Focus and Nature of the Research Inquiry

The first aim of the inquiry is to explain the in/stability over time of a contract based inter-organizational relationship (IOR) which existed mostly under conditions of government monopsony (M_G).

Following Hennart (2008), a contract based IOR is defined as an institution consisting in a set of rules, formal and informal, which define and shape the functioning of an IOR and the behaviours of the organizations in the IOR.

IOR stability over time is defined as a condition in which an IOR maintains a sustainable performance from the standpoints of the organizations in the IOR.

Government monopsony (M_G) is defined as a condition in which the government or its agent acts as the single buyer of a well specified product, and where the standing of the buyer as a monopsonist is protected by statute or government regulation (Blair and Harrison 2010, Block and Barnett 2009, Stucke 2013).

Power is defined as an agent's ability to do something or to bring something about (Morris 2002). 'Power over' is defined as an agent's ability to determine or influence the context in which power may be developed and exercised (Lukes 2005). 'Power dependence responses' are defined as specific types of agency activity by the organizations in the IOR, such as 'coalition formation', 'lobbying', 'productivity improvement' and 'cross-subsidisation'. Risk is defined in relation to 'IOR performance risk' as the probability and consequences that the objectives of either or both of the organizations in the IOR will not be achieved (Daz and Teng 2001).

The focus of the inquiry was empirical and centred on the IOR between the NHS buyer for non-medical education (the government monopsonist or 'GM') and Middlesex University (MU). The IOR was an example of a contract based IOR that existed mostly under conditions of M_G . The inquiry traced the origins of the IOR and its subsequent development, key outcomes and performance over an 18 year period, 1995-2013 ('the reference period').

The second aim of the inquiry is to contribute to policy formulation directed toward the future stability of IORs in the public sector, between government buyers/commissioners and non-government suppliers, particularly in NHS-HE IORs in the provision of non-medical education.

Given gaps in current theory and evidence the inquiry is exploratory in nature.

1.2 Empirical Relevance of the Inquiry

In 2015, there were c. 64 Higher Education organizations ('HEIs') in England which had IORs (under conditions of M_G) with the GM for the provision of non-medical education. Instability in those IORs could potentially have material consequences not only in respect of those IORs but also at organization and sector levels:

(i) At organization level: the income which HEIs received from their IORs with the GM typically ranged between 5% and 30% of their overall tuition fee income. If the income received by an HEI from its IOR did not cover its full economic costs (FEC) then the performance of the IOR was likely to

become unsustainable from the standpoint of that HEI and ultimately could have negative consequences for the HEI (financially and in terms of output quality) and for the survival of the IOR.¹

A determinant of whether a HEI's FEC would be covered was the unit of resource or 'national benchmark price' (BMP) it received in its IOR.² In October 2014, GM and HEI representatives reached an agreement that the BMP was to remain at the same level in nominal terms as it was in 2013/14 for the period 2014-2016.³ However, this meant that an already existing shortfall of the BMP relative which had been estimated relative to HEIs' average FEC was certain to grow to c. 10% - 14% by 2016;⁴ beyond 2016, the GM indicated it would be seeking further real terms reductions in the BMP of c. 4% year on year to 2020.

(ii) At HE sector level: given the number of HEIs in England with IORs in non-medical education and the relative importance of those IORs to HEIs, the outlook for the adequacy of the BMP to cover HEIs FEC had potential implications for the overall functioning of the HE sector, particularly if a significant number of those IORs had an unsustainable performance from the standpoint of their HEIs.

(iii) At NHS sector level: the UK HE system was the main source of supply of newly qualified entrants to the NHS non-medical workforce.⁵ A disruption to that supply brought about by an unsustainable performance and/or failure of IORs for the provision of non-medical education potentially could affect the quality as well as the quantity of appropriately skilled healthcare professionals being at the right place at the right time in the system. In their 2013 review of the UK nursing labour market, Buchan et al concluded there was '*an urgent need to address both the national security of the supply of nurses, and the local ability to determine evidence-based nurse staffing levels*'.⁶

1.3 Theme, Findings, Thesis, Further Research and the Potential Need for Change

The theme of the inquiry concerned the exercise of power by a GM and the potential and actual consequences for the in/stability over time of an IOR under conditions of M_G .

The main findings of the inquiry were:

1. The IOR investigated in the inquiry originated under conditions of M_G and continued to exist mostly under those conditions for the whole of the reference period.
2. The IOR became less stable over time from the standpoint of the supplier (MU); reductions in IOR stability occurred in dimensions of risk relating to the future performance of the IOR.
3. From the standpoint of the buyer (GM), IOR performance stability was maintained throughout the reference period. This suggests that from the buyer's standpoint, IOR performance stability can coexist with a reduction, from the supplier's standpoint, in IOR stability on dimensions of risk.

¹ Source: Walsh, D, and Jelfs, E. (2015) '*Beyond BMP: Where next for the funding of nursing, midwifery and AHP pre-registration education in England?*' Council of Deans of Health Working Paper, February 2015.

² The benchmark price ('BMP') was the price per student fte which HEIs were paid for their education provision in non-medical education. The BMP was a national tariff and applied to all IORs in non-medical education in England. Source: Archive 28 and 29.

³ Letter from HEE to UUK dated 14th November 2014 - Archive 72.

⁴ Source: Council of Deans of Health (2014)

⁵ Source: Buchan, J., Seccombe I, and O'May, F. (2013)

⁶ Buchan, J., Seccombe I, and O'May, F. (2013), p. 3.

4. Instability and threatened instability in the IOR over the reference period were brought about mostly by the exercise of power by the GM and by the power dependence responses of MU. The exercise of power by the GM in the IOR consisted partly of responses to events exogenous to the M_G , especially to exogenous shocks to the M_G , which occurred during the latter part of the reference period (2005-2009). In the last 5 years of the reference period (2008-2013), the GM also exercised power on its own initiative to bring about changes in the IOR as well as in the M_G which were consequential for stability on dimensions in the IOR.

The thesis developed in this dissertation is that instability and threatened instability in the IOR over the reference period were due mostly to a power imbalance in the IOR in favour of the GM, between the GM and MU. The source of that power imbalance was a combination of:

- The resource dependency of MU on the IOR
- The conditions of M_G and bilateral monopoly under which the IOR existed.

Due to the exploratory nature of the inquiry and also its empirical focus on a single case history, it is not being argued that the findings and thesis presented here are generally applicable to IORs under conditions of M_G - further research would be required into other IORs under conditions of M_G for such an argument to be evaluated. However, to the extent that the conclusions of further research support the thesis being presented here, then there are issues for management and policy makers to address regarding the stability over time of IORs under conditions of M_G . These issues include the identification of risks to the future performance of those IORs and the actions which should be taken by policy makers and management to mitigate or avoid such risks. Policy changes and management action may be required at different levels: (i) at organization and inter-organization levels in respect of the IORs in non-medical education in England (ii) at NHS-HE inter-sector level in relation to the conditions of M_G under which those IORs are currently established.

1.4 Research Questions

The inquiry was focussed around the development of answers to five research questions. The overall research question in regard to the first aim of the inquiry was research question 4. This question concerned the explanation of in/stability over time in the IOR:

4. Why did in/stability over time in the IOR come about?

Answers to this question were sought in relation to the exercise of their powers by the organizations in the IOR, the sources of those powers, and the impact of events exogenous and endogenous to the IOR. Answers to the overall research question were also sought in relation to the impact of historical processes on in/stability over time in the IOR.

To facilitate the development of answers to the overall question of the inquiry, three preliminary questions were defined, viz.:

1(i) What were the origins and initial conditions of the NHS-HE inter-sector institutional arrangements and of the IOR? (ii) What were the conditions of these arrangements over the reference period?

2. What were the IOR key outcomes and consequences for IOR in/stability over the reference period in each of the main components of the IOR, viz. contracts, outputs, price and performance?

3. How did in/stability over time in the IOR come about?

The rationale for these questions was to develop answers to 'what' and 'how' questions about the in/stability over time of the IOR which could be used as foundations for developing answers to the overall research question which concerned the 'why'. Thus, under question set 1 above an objective of the inquiry was to ascertain the initial conditions of the IOR, in particular to ascertain whether the IOR was indeed under conditions of M_G . A further objective was to establish the initial conditions and stability states on dimensions of the IOR so these could be used as a baseline against which the findings about subsequent changes in the in/stability of the IOR (research question 2) could be plotted. The objective of question 3 was to develop an understanding of how processes and events impacted on the in/stability of the IOR over time. For example, in relation to events the further questions were set: (i) how were IOR relevant events, both exogenous and endogenous to the IOR, responded to by the organizations in the IOR? (ii) what were the impacts of the responses to these events on in/stability over time in the IOR?

The overall research question in regard to the second aim of the inquiry was research question 5. This concerned the promotion of stability over time in IORs in the public sector, between government buyers/commissioners and non-government suppliers, particularly in NHS-HE IORs:

5. How should conflict in principal-agent relationships such as in long term contract-based IORs, be managed so that sustainable outcomes from the standpoints of all relevant stakeholders are brought about?

The rationale for this question was the general relevance of principal-agent theory (PAT) to government approaches to management in the public sector and the specific relevance of PAT to the contract-based type of IOR which was the subject of the inquiry.

1.5 Approach and Theoretical Perspective

The overall approach used in the inquiry was an 'agent-centred historical institutionalism' (Bell 2011). The approach had several strands: (i) a power perspective (Mahoney and Thelen 2010, Huxham and Beech 2008, Mahoney 2000) using resource dependence theory (Pfeffer and Salancik 2003, Casciaro and Piskorski 2005) (ii) concepts of historical dependence (Page 2006) and (iii) concepts of gradual institutional change (Mahoney and Thelen 2010). A high level theoretical framework was constructed which brought together these strands. The approach was used to develop explanations of the in/stability over time of the IOR defined as a micro level institution (Hennart 2008).

1.6 Data, Access, Methods and Validity

Data: The database constructed in the inquiry consisted of secondary data, a substantial amount of which was obtained from archives in MU. These data related mainly to the 18 year period of the IOR and included copies of IOR contracts and contracts performance reviews; IOR student numbers data; communications between the GM and MU and also suppliers generally in the M_G – the latter included GM consultation, planning and policy documents. The database also included copies of internal MU email communications about the IOR, including strategic and financial reviews. Data also included GM parent organization commissioned reports into pricing in the M_G ; GM and MU organization level data, including board reports and financial reports; and communications, reports, and minutes of meetings of higher education lobby groups dealing with health workforce education.

Some of the secondary data relating to the GM and MU were publicly available data, these data including annual reports and accounts, and strategic plans. Other publicly available data related mainly to sector level data about the health and higher education sectors and to data about the relevant professional and regulatory bodies for the health and higher education sectors.

Access: The writer was a senior manager at MU with lead responsibility for the University's IOR with the GM during the period 2004 – 2012. In this role the writer had full access to all of the archives at MU. Since 2013 the writer has been a Senior Policy Advisor to the Council of Deans of Health (CoDH); the writer has advised and supported the CoDH in its negotiations with HEE on the pricing of non-medical education in England. Currently the writer is assisting CoDH in the development of a 'new settlement' between the NHS and HE sectors for the long-term funding of non-medical education in England. In these roles the writer has had access to further data at HE-NHS inter-sector level.

Methods: A diachronic case history was used as the overall method in the inquiry. A typology based on the type of the IOR as a 'unilateral contract-based' IOR, and transaction cost theory relating to IORs generally, was constructed.⁷ The principal categories or 'components' of the typology were 'contracts', 'outputs' and 'price'. Using the typology as a framework, a descriptive history of the origins of the IOR and its development over the entire reference period was produced. This history, which was validated by IOR member checks, was subsequently used as a resource in the inquiry.

A concept of IOR in/stability over time from the standpoint of each of the organizations in the IOR was defined; a key characteristic of this concept was the inclusion of dimensions of expected (i.e. future) as well as historic/current performance of the IOR. The concept was operationalised on 14 dimensions which were grounded in the reality of the IOR and which when taken together covered each of the principal components of the IOR. The stability of the IOR on these 14 dimensions was investigated and the findings summarised on a year by year basis for each of the 14 dimensions. The outputs of this part of the inquiry dealt with research questions 1 and 2 (above).

To enable the development of interpretations of the findings about the IOR in/stability over time (and thereby help to address research question 3) a conceptual framework (the 'EEAPOC' framework) was constructed. The EEAPOC framework focussed on the processes and events of the IOR and its environment, and brought these together with the associated movements in IOR stability. From this, inferences were drawn about how IOR stability impacts over time came about. To ensure an overall coherence of concepts and theory, the EEAPOC framework was directly based on the theoretical framework which had been developed in the inquiry and was an elaboration of the latter focussing on high level processes in the IOR and its environment.

In regard to research question 4 of the inquiry, components of the theoretical framework were also elaborated to enable the development of explanations of the findings about IOR in/stability over time: the power perspective and concepts of gradual institutional change were elaborated in terms of different kinds of power dependence responses available to and used by the organizations in the IOR; historical dependence was elaborated in terms of different types and concepts of historical dependence. The impact on IOR stability of power dependence responses and of historical dependence were then inferred or identified in relation to the events in the IOR and the associated outcomes on IOR stability for each of the years of the IOR and on each of the 14 dimensions.

Research question 5 was tackled in four parts, beginning with an outline of principal-agent theory (PAT) and a summary of strengths and limitations of PAT given in the literature. Next the validity of PAT, and the appropriateness of current government policy in using M_6 as a technique of public

⁷ Hennart (2008); Daz and Teng (2000)

sector management, is considered in the context of the main findings and conclusions of the inquiry. After a brief update on policy developments affecting the future of the M_G, research question 5 is answered with a set of recommendations for future policy and management of HE-NHS IORs.

Validity: Four potential threats to the validity of the findings and conclusions drawn in the research were identified (construct validity, data limitations, researcher bias, and reactivity). The strategies used to mitigate those threats included (i) use of established theory where possible (ii) use of 'thick description' of the substantive events of the IOR (iii) drawing on the expertise and knowledge of the writer gained from direct involvement in the IOR for half of the reference period (iv) member checks of the interpretations made of IOR stability impacts and (v) expert academic review.

1.7 Plan of the Dissertation

The first aim of the inquiry is addressed in Chapters 2 - 8.

The overall approach taken in the inquiry, historical institutionalism (HI), is outlined in Chapter 2. Underlying concepts and alternative perspectives taken in HI are explained. Issues in HI of relevance to the inquiry are identified and the alternative perspectives in HI evaluated on the basis of their potential to resolve those issues. On the basis of this evaluation a power perspective is selected and developed in the inquiry. Concepts of power are defined and Foucault's theory of power and the exercise of power are outlined. Within this power perspective, resource dependence theory (RDT) is used as the theoretical framework in the inquiry. RDT is (i) defined (ii) developed further for use in an HI approach and (iii) contextualised for application in the inquiry to conditions of M_G and bilateral monopoly (Figure 1). A concept of 'IOR stability' is developed. The issue of stability in IOR under conditions of M_G is considered and gaps in current theory and evidence are identified. A theoretical framework which drew together RDT with concepts of historical dependence and also took account of the environment of the IOR, which was used for developing explanations of the in/stability over time of the IOR is presented in Chapter 2 (Figure 2).

The methodology used in the research is set out in Chapter 3. This included the strategy of the inquiry, the overall research questions and the research procedure. A key step in the procedure was the development of the research findings through operationalisation of the concept of 'IOR stability'.

The use of these operational concepts was indispensable to the subsequent development of the interpretations and explanations of the findings of the research. Details of these constructs together with details of the underlying assumptions are summarised in Tables 1 and 2, and in Exhibits 1 - 5.

Further steps in the research procedure concerned the interpretations and explanations of the research findings: a conceptual framework, based on the theoretical framework presented in Chapter 2, was developed for this purpose and this is presented in Chapter 3 and summarised in Figure 3. The development of interpretations and explanations was also helped by the use of 'thick description' of IOR events and processes including an analysis of these framed as 'power games'. Chapter 3 is concluded with a consideration of the main threats to the validity of the research which were identified and the strategies used to mitigate those threats.

The findings of the inquiry in relation to research questions 1 and 2 are presented in the following two Chapters, 4 and 5 respectively. In Chapter 4 the origins of the M_G and also of the specific IOR chosen to research the dynamics and outcomes of the M_G are described; these are summarised in Tables 5(i) - 5(v) and 6. The actual initial conditions of the M_G are also described and these are considered against the conditions which in the literature define the existence of a monopsony. The

Chapter is concluded with a consideration of the context of the IOR over the reference period and specifically to what extent those conditions continued to amount to conditions of M_G .

In Chapter 5, the key outcomes and performance of the IOR over the 18 year reference period of the research (1995-2013) are described. The consequences of those outcomes and performance for the stability over time of the IOR are assessed; these are summarised in Tables 3, 9 and 10.

Answers to research question 3 and also to the overall question of the inquiry, research question 4, are developed and presented in Chapter 6. The analysis, interpretations and explanations of the stability over time of the IOR developed in Chapter 6 draw on relevant events both exogenous as well as endogenous to the IOR; these events are summarised in Tables 4(i), 4(ii), and 11-13; connections are made between these events as well as with the conditions of the M_G under which the IOR originated and was conducted, to develop interpretations and explanations about how and why the impacts on the stability of the IOR over time came about. Power dependence responses of the GM and MU, and historical dependencies relevant to IOR stability impacts over the reference period are summarised in Tables 14(i) – 14(iii) and Table 15. For the last 5 years of the reference period (2008 – 2013), interpretations and explanations of the in/stability impacts on the IOR are framed as a series of 4 power games. The details of these games, including their structure, players and their objectives, stakes, moves and outcomes are summarised in Tables 16 – 20.

In the final two sections of Chapter 6, holistic explanations are developed in response to the overall research question. The relationships between historical dependencies and resource dependence in the IOR are explained. Building on the explanations developed in the inquiry about in/stability in the dimensions of the IOR, an overall explanation of IOR in/stability over the reference period is developed. The focus in the final section of Chapter 6 is on instability and threatened instability in the IOR over the reference period as a whole. The explanations developed in the inquiry for all 'U' and 'TRI' impacts in the IOR are summarised in Table 21 and analysed in Table 22. Building on those explanations, an overall explanation of instability and threatened instability in the IOR over the reference period is developed.

Summaries of the findings about the in/stability of the IOR over the reference period are presented in Chapter 7. In Chapter 8 (i) the main conclusions drawn in response to the overall research question are summarised (ii) the thesis developed in the inquiry is stated (iii) a short story is told of the 'journey in government monopsony' of the IOR over the reference period.

The second aim of the inquiry is addressed in Chapter 9. Findings of the inquiry about the impact of current government approaches on the in/stability of NHS-HE IORs in England are summarised in Table 23. Based on those findings and drawing on theory about markets within an overall context of neoliberalism, a critique of the use of M_G as part of government's approach to management of the public sector is presented. Focussing on the HE-NHS inter-sector institutional and IOR arrangements for non-medical education, and subject to further research confirming or/and further developing the conclusions drawn in this inquiry, recommendations are made which are aimed at the future stability of HE-NHS relationships. These recommendations are summarised in Table 25.

Key issues and the main points of the literature relevant to the thesis are outlined in Chapter 10. A summary is given in Table 26 of how the inquiry contributes to that literature, particularly in regard to (i) the development of an agent-centred historical institutionalism using a power perspective, (ii) the extension of resource dependence theory to incorporate a time dimension and structural sources of power (iii) the development and operationalisation of a multi-dimensional concept of IOR in/stability over time which includes sub-dimensions of risk defined from the standpoints of the organizations in an IOR (iv) providing empirical knowledge about and some insights into M_G . Some

recommendations are made for further empirical research particularly into areas where government has created and used markets as an important part of its management of the public sector.

Annex A to the dissertation is an account of developments in the writer's professional practice due to his involvement in the DBA (HEM) programme at the University of Bath.

Annex B to the dissertation is a report to the writer's organization, the Council of Deans of Health. In this report the findings and conclusions of the research are summarised. Recommendations are made concerning HE - NHS inter-sector institutional arrangements for non-medical education - particularly in relation to IOR contracts and pricing - and also concerning the future funding of NHS non-medical workforce education. With regard to management by HEIs of the stability of their organizations (as distinct from the stability of their IORs), some recommendations are also made about an overall strategy for HEIs to manage, and perhaps also to limit, their resource dependence on IORs under conditions of M_G .

2.0 Introduction: Selection of Approach - Assumptions and Issues

Historical institutionalism (HI) was selected as the overall approach in the research inquiry. This selection was driven by definitions and assumptions made relating to the overall aim of the inquiry, and by characteristics of the HI approach which made it potentially a suitable approach.

The overall aim of the inquiry was to develop explanations of the *in/stability over time* of a contract based IOR under conditions of a *government monopsony*. Following Hennart (2008) et al, an IOR was defined as an institution consisting in a set of rules, formal and informal, which defined and shaped the functioning of an IOR and the behaviours of the organizations in the IOR.⁸ Given this definition and the overall aim of the inquiry, two assumptions were made:

(i) It was assumed there would be two inter-connected levels of institutional analysis in the inquiry: a micro-institutional level relating to the IOR, and a macro-institutional level relating to the environment of the IOR. The environment of the IOR consisted mainly in the organizational environments of the organizations in the IOR and the NHS-HE inter-sector level institutional arrangements which took the form of a government monopsony (M_G).

(ii) A key characteristic of the phenomena to be studied in the inquiry involved a time dimension (IOR *in/stability over time*): the inquiry would span a 25 year history from the origins of the IOR and the institutional context, in particular the M_G , in which it was embedded. It was assumed that an understanding of the history of the IOR and its institutional environment would be important to developing explanations of the *in/stability* of the IOR over that period. The issue at this point of the selection process concerned which institutional approach should be used - in a review of 'new institutionalisms' Peters (2012) had identified nine approaches to institutional analysis. From a review of the literature on new institutionalism it was concluded that HI had some characteristics which made it a potentially suitable approach. According to Pierson and Skocpol (2002), a distinctive characteristic of HI was in considering '*critical junctures and long-term processes where others look only at slices of time or short-term maneuvers*'; in doing this, '*the overarching contexts and interacting processes*' that shaped institutions and institutional outcomes were made more visible and understandable.⁹ A further distinctive characteristic of an HI approach was in the treatment of time - the sequence of events as well as the contexts in which these events occurred, were equally important. HI approaches typically included concepts which had regard to the potential impact of the sequence of events on the shaping of behaviours and outcomes.

Thus, it was on the basis of the assumptions outlined above that an HI approach was selected. However, arising from this, three issues were identified which needed to be addressed: (i) HI approaches have more usually been associated with explanations of institutional reproduction. In regard to institutional change HI approaches have focussed on exogenous change at points of 'critical junctures' which have been stimulated by exogenous shocks.¹⁰ Endogenous change has however been relatively neglected in HI approaches.¹¹ Given the focus in this research inquiry was on IOR *in/stability over time* the approach selected needed to be capable of generating valid explanations relating both to reproduction of IOR *in/stability over time* as well as to changes in IOR *in/stability over time*, including both exogenous and endogenously engendered change. The first

⁸ Hennart (2008), p. 339

⁹ Pierson, P. and Skocpol, T. (2002) p. 1

¹⁰ Peters (2012); Hay (2006); Mahoney and Thelen (2010)

¹¹ Mahoney, J. and Thelen, K. (2010)

issue therefore was: could an HI approach be used to generate such explanations? (ii) HI approaches have more usually been associated with structural types of explanation of institutional change. In such explanations the behaviour of agents within their institutional settings has often been assumed to be determined by the enduring characteristics of the institution.¹² In the context of this inquiry such an assumption would have downplayed the IOR level of analysis and would have been inconsistent with the ontological stance assumed in the inquiry - social constructionism ontology (SCO). In SCO, agents such as IOR agents are assumed to be strategic and to be capable of making choices over their actions.¹³ The second issue therefore was: could an HI approach be developed which was compatible conceptually with an agent-centred approach to institutional change and to change in IOR in/stability over time? As Peters (2012) put it: under an HI approach how is the link between institutions and agents ('individuals') to be conceptualised?¹⁴ (iii) The third issue concerned the relations between agents within a given institution, such as an IOR under conditions of M_G . How were these relations to be conceptualised? What perspective on these relations was to be adopted? The chosen perspective also needed to be compatible with the concepts used in the inquiry of the links between institutions and agents.

The next five sections of this Chapter are structured around a discussion of HI, concepts and types of historical dependence, and the issues outlined above. A concept of the stability over time of IOR under conditions of M_G is developed and current evidence about the use of monopsony power and its consequences considered. In regard to the selection of the overall approach and of the explanatory perspective adopted in this inquiry, an argument is developed of how each of the identified issues can be addressed using a combination of historical dependence concepts and resource dependence theory, while also ensuring conceptual compatibility and theoretical coherence. The Chapter is concluded with a presentation of a theoretical framework which brings together the concepts and theories used to explain the focal empirical phenomena (*in/stability over time of a contract- based IOR under conditions of M_G*) of the inquiry.

2.1 Historical Institutionalism (HI)

HI has been defined as an *approach* to studying '*the ways in which institutions structure and shape behaviour and outcomes*' over time (Steinmo 2008, p.118). In an HI approach, institutions have been conceptualised as consisting of 'formal and informal rules, procedures, routines, norms, and conventions' (North 1990, Hall and Taylor 1996, Hay 2006, Steinmo 2008). Both the institution and its historical context were important: the institution was important because it was its constitutive and regulative rules that 'shaped' which agents participated in an institution and their 'strategic behaviour' (Steinmo 2008); the historical context was important for three reasons: (i) a given institution was at least partly the outcome of prior events and behaviours; (ii) behaviours took place and strategic choices were made within different contexts and on different issues. Dependent on the historical context of an institution, the explanations of agents' choices and behaviour within an institutional field might also be different (iii) '*agents can learn from experience*' but at the same their '*expectations were also moulded by the past*' (Steinmo 2008). Thus, in so far as agents' perceptions of options and the strategic choices they made were influenced by their expectations then the historical context of the institution would also have been influential.

The distinctiveness of an HI approach to institutional analysis partly lies in the argument that '*the policy choices made when an institution is being formed ... will have a continuing ... influence on the policy far into the future*' (Peters 2012, p. 70). A common outcome of historical dependence was the

¹² Peters (2012); Hay (2006)

¹³ Della Porta and Keating (2008); Hay (2006); Bell (2011)

¹⁴ Peters (2012), p. 83

'long-term reproduction of a given institutional pattern'.¹⁵ This argument about 'historical dependence'¹⁶ has been developed by the (i) theorising about the origins and types of historical dependence (ii) development of concepts for the empirical analysis of historical dependence (iii) use of a variety of frameworks to explain institutional reproduction and change.

2.1.1 Historical Dependence (i): Origins and Types

According to Mahoney (2000) the origins of historical dependence coincided with the origins of institutions or institutional arrangements; these origins lay in the occurrence of prior events which themselves were contingent. The origins of institutions corresponded with periods of 'critical junctures' during which alternative institutional arrangements were considered and the ultimately favoured option was negotiated and selected. These junctures were 'critical' because *'once a particular (institutional) option was selected it became progressively more difficult to return to the initial point where alternatives were still available'*.¹⁷ The latter was due mainly to the historical dependence which arose once a new institutional arrangement had become established.

In contrast to the 'critical juncture' period of its origin, historical dependence was *usually* associated with periods of institutional stability and reproduction, and was characterised by dependence processes which consisted in *'institutional patterns or event chains'*.¹⁸ From a review of the literature, Page (2006) identified four overall types of historical dependence processes:

- Increasing returns. This was where the more a particular choice was made or action taken the greater its benefits or its perceived appropriateness.
- Positive feedbacks. This was where consequent on a particular choice, positive externalities were created. Positive feedbacks were slightly different from increasing returns: *'those making the choice received 'little bonuses' when the choice was when or about to be made, whereas increasing returns arose smoothly as more people made the same choice'*.¹⁹
- Self-reinforcement. This was where the making of a choice *'put in place a set of forces ... that encouraged that choice to be maintained'*.²⁰ An example of self-reinforcement was where complementary institutions were created that increased attachment to the earlier institutional choices: here, historical dependence could ensue from the creation of negative externalities by the complementary institutions.²¹
- Lock-in. This was where a particular choice or action *'... becomes better than any other because a sufficient number of people have already made that choice'*.

In addition to the above processes, Mahoney (2000) also identified 'reactive sequences': these were characterised by 'backlash processes' that reacted to earlier outcomes. Whereas self-reinforcing

¹⁵ Mahoney, J. (2000), p. 508

¹⁶ Instead of 'historical dependence', the term 'path dependence' is more commonly used in the literature when the argument about the importance of history is made. However, as Page, S. (2006) pointed out, 'path dependence' is only one of the potential forms of 'historical dependence'. Unless specifically warranted otherwise, the more general term 'historical dependence' is used in this dissertation.

¹⁷ Mahoney, J. (2000), p. 513

¹⁸ Mahoney, J. (2000), p. 507

¹⁹ Page, S. (2006), p. 88

²⁰ Page, S. (2006), p. 88

²¹ Page, S. (2006), pp 112 – 113

processes functioned to reinforce earlier outcomes, reactive processes functioned to transform and potentially reverse those earlier outcomes.

2.1.2 Historical Dependence: (ii) Concepts

Page (2006) noted that the concept of 'path dependence' had been used in the study of a wide range of historical phenomena but that relative to the large differences in the micro-processes which characterised such phenomena, the concept of 'path dependence' was relatively underdeveloped and consequently was not as useful an analytic tool as it might be. To help remedy this situation Page reframed the concept of path dependence as one form of historical dependence, clarified some 'common misunderstandings' about the concept of path dependence, identified several different potential types of *historical* dependence processes and constructed definitions for each of those types.

2.1.2.1 Forms of Historical Dependence

Page (2006) distinguished between three different forms of 'historical dependence': '*path dependence*', '*phat dependence*' and '*state dependence*'.²² The concept of '*path dependence*' was defined to mean '*current and future states, actions, or decisions depend on the path of previous states, actions, or decisions*' (Page 2006, p. 88); 'states', 'actions', and 'decisions' under this definition have also been referred to as 'outcomes' or as 'policy choices'.²³ The concept of '*path*' denoted the order in which the outcomes on a particular path had occurred; a given outcome was held to be *path dependent* where the previous outcomes on the path as well as the order in which those previous outcomes came about, were crucial.

Where previous outcomes were crucial to a given outcome, but the order in which they occurred was not, the given outcome was defined as '*phat dependent*'.

'*State dependence*' was where a path could be partitioned into a finite number of states which contained all of the relevant information. Transition rules governed the change in states over time. If the transition rule changed, and/or there were many potential states, and/or particular states precluded other states as the next outcome then the state dependence process would also evidence historical dependence.

2.1.2.2 Increasing Returns and Path Dependence

'Increasing returns' and 'path dependence' were often assumed to mean the same thing. However, Page argued, these terms referred to logically distinct concepts: path dependence might arise from any kind negative externality and not just from increasing returns; increasing returns was not in itself either sufficient or necessary for historical dependence; even where increasing returns did contribute to historical dependence this might be to phat dependence rather than to path dependence.²⁴

2.1.2.3 Sensitivity to Initial Conditions (SIC) and Early Path Dependence (EPD)

These also were terms which were often conflated, but which again were different concepts. SIC was where future outcomes were determined by the initial conditions. Sensitivity to initial conditions would be evidenced where relatively small changes in the initial conditions would be reflected in

²² Page, S. (2006), p. 89

²³ Page, S. (2006), p. 89; Peters, B. (2012), p. 72.

²⁴ Page, S. (2006), pp 89 – 90

relatively large differences in the outcomes. In contrast, EPD was where early *random* outcomes shaped rather than determined future outcomes.²⁵

2.1.2.4 Historical Dependence Processes: Potentially a Variety of Types

Using ball and urn models Page constructed 11 examples of different types of historical dependence processes. Three of these examples, which were identified as potentially useful in this research inquiry, are described below. These examples illustrate some of the different ways in which historical outcomes can shape future outcomes. In the first two examples it was the first or early historical outcomes which were important; in the third example it was the most recent history which mattered.

- Example 1: '*The Founder Process*'.²⁶ This was an 'initial outcome-dependent' process. In this process the first or initial outcome followed on a random choice made by the founder and all subsequent outcomes depended only on the first outcome. This process was an example of initial outcome dependence.²⁷
- Example 2: '*Burden of History Process*'. In this process, all outcomes along the path were relevant to the next outcome; however, early outcomes mattered more than later ones. This process was an example of early path dependence.²⁸
- Example 3: '*A Forgetting Process*'. In this process, later outcomes mattered more than earlier ones; this process was an example of recent path dependence.²⁹

In non-determinate systems, these examples need not be mutually exclusive: over time, both the form and type of historical dependence pertaining to a given object of dependence, such as the stability impacts of an IOR, may change. Endogenous or/and exogenous events could engender new forms and types of historical dependence to emerge and/or replace previous dependencies.

2.1.3 Historical Dependence (iii): Explanations of Institutional Reproduction

Mahoney (2000) identified four 'dominant theoretical frameworks' used in sociology to explain institutional reproduction which occurred through path dependent processes.³⁰

- Functional. Mahoney identified two versions, the 'weak' and the 'strong' functional explanation. In the 'weak' version, reproduction is explained in terms of the consequences of the institution. This version can be associated with any of the types of historical dependence processes outlined above.
In the 'strong' version, a teleological explanation of institutional reproduction is given: reproduction is explained in terms of the positive function the institution performs in relation to the integration/adaptation/survival 'needs' of a larger system, such as the network of institutions in which the specific institution is embedded. The 'functionalist logic'

²⁵ Page, S. (2006), p. 91

²⁶ Page, S. (2004), p. 104. The titles of the following examples are also taken from Page, S. (2006), pp 99 – 105

²⁷ Page, S. (2006), pp 104, 106

²⁸ Page, S. (2006), pp 103, 106

²⁹ Page, S. (2006), pp 105 - 106

³⁰ Mahoney, J. (2000) pp 517 - 526

of the strong version is usually associated with the identification of self-reinforcing types of historical dependence processes.³¹

- Legitimation. Institutional reproduction is explained in terms of the commonality of actors' beliefs, values, conventions and scripts about what behaviours areas 'appropriate'. This is expressed institution-wide, as a shared 'logic of appropriateness' which underpins actors' actions and behaviours. Institutional reproduction under such logic occurs as the cumulative consequence of multiple individual actors' actions and behaviours, either made deliberately (in a 'discursive' mode of consciousness) or made habitually (in a 'taken for granted' mode of consciousness).³² The 'logic of appropriateness' explanation is usually associated either with self-reinforcement or with increasing returns types of historical dependence processes: *'increasing legitimation processes are marked by a positive feedback cycle in which an initial precedent about what is appropriate forms a basis for making future decisions about what is appropriate'*.³³
- Utilitarian. Institutional reproduction occurs through the cumulative actions and behaviours of individual actors. These actions or behaviours are the outcome of choices made by actors from a range of alternatives. Actors make assessments of the potential costs and benefits of alternatives and choose those actions/behaviours they believe will maximise their individual utility functions. In making their assessments actors will take account of their expectations of likely outcomes, and their attitudes to risk under conditions of uncertainty. In conditions of incomplete information actors may choose to 'satisfice', using 'rules of thumb' developed from prior experience. In this approach institutional reproduction occurs as an outcome of the 'calculus logic' which has underpinned the individual transactions; in effect the actors 'choose' to reproduce an institution, or at least the cumulative choices made by individual 'rational' actors function to reproduce an institution.³⁴
- Power. In this explanation, as in the utilitarian explanation, it is assumed that rational actors weigh the costs and benefits of alternative actions and behaviours. However, it is also assumed that institutions function to distribute the costs and benefits unevenly between those actors, and consequently that *'actors with different endowments of resources will typically have conflicting interests vis-a-vis institutional reproduction'*.³⁵ In a power explanation of institutional reproduction, the uneven distributions of costs and benefits is assumed to reflect the interests of those actors with relatively more power than other actors, and has been brought about by the exercise of that power.

Both the utilitarian and power explanations of institutional reproduction can be associated with any of the types of historical dependence processes outlined above.

2.2 Issues in HI (i): Explanations of Institutional Change

In institutional analysis generally, 'institutions' have been treated *'as relatively enduring features of political and social life'*.³⁶ When an assumption about institutional persistence and the argument about the impact of historical dependence processes are taken together, then the issue arises of

³¹ Mahoney, J. (2000), p. 519

³² Giddens, A. (1984), Berger and Luckmann (1967)

³³ Mahoney, J. (2000), p. 523.

³⁴ Mahoney, J. (2000), pp 517 – 518.

³⁵ Mahoney, J. (2000), p. 521

³⁶ Mahoney, J. and Thelen, K. (2010), p. 4

whether an HI approach can also be used to generate explanations of institutional change (Hay 2006, Mahoney and Thelen 2010, Peters 2012). Can the theoretical perspectives used in HI to explain institutional reproduction, also be used to explain institutional change, particularly radical change? The answer to this question depends on the particular theoretical perspective used:

- **Functional.** In both versions of functional explanation, institutions and the systems in which they are embedded are assumed to be self-regulating. In terms of an HI approach this means that the historic dependence processes are assumed to continue as self-reinforcing processes. Given this assumption, *'institutional change usually requires an exogenous shock'* such that the institution no longer functions to meet the needs of the overall system.³⁷ The consequence of this is to stimulate a 'demand for change' in/of the institution so that its positive functionality for the overall system is restored. However, within the functional theoretical framework the mechanism by which change is effected is not specified.
- **Legitimation.** Change in this explanation is associated with changes in the values of actors and in what they believe to be 'appropriate'. Given assumptions about the self-reinforcing nature of the historical dependence processes used to explain the stability of the institution, the sources of such changes are usually exogenous.³⁸ The possibility for exogenously stimulated change arises from the availability of alternative cognitive frames available to the institutional actors outside of their institution, and which provide *'a basis for actors to adopt new subjective evaluations and moral codes concerning appropriateness'*.³⁹ A further exogenous source of new cognitive frames is new actors to the institution who succeed in *'unsettling dominant practices or scripts and impose their preferred alternatives'*.⁴⁰
- **Utilitarian.** Institutional change in this explanation may be associated with changes in the utility functions of actors and/or changes in the relative payoffs between available alternative behaviours; the impact of such changes might be to change or even reverse the force of historical dependence processes which have previously shaped actors' behaviours. In marketplace institutions such changes may be stimulated either exogenously or endogenously, for example by increasing competitive pressures and by technological innovation. Learning by actors, which functions to improve their adaptive capacities and which enables them more effectively to mitigate risks and manage uncertainty, may also be a stimulus for change; for example, Weingast (2007) has argued that the HI concept of 'critical juncture' can be used with a rational choice institutionalism framework to trace changes in actors' 'induced preferences'.⁴¹ In a utilitarian explanation, the mechanisms which might bring about radical change consist in the deliberate choices made by individual actors to bring about such change. To effect deliberate change at the overall institutional level however may require that the individual actors act collectively, e.g. in coalition.⁴² This is because changes in behaviour at the individual actor level do not necessarily translate into change at the overall institutional level. The sum of individual behaviours, even of changed behaviours, in the utilitarian explanation might function merely to maintain the equilibrium of the institution or to change that equilibrium only marginally.

³⁷ Mahoney, J. (2000), p. 521

³⁸ Mahoney, J. and Thelen, K. (2010), p. 5.

³⁹ Mahoney, J. (2000), p. 525

⁴⁰ Mahoney, J. and Thelen, K. (2010), p. 5

⁴¹ Weingast, B. (2007), p. 161 and p. 164.

⁴² Hall, P. (2010) puts this more strongly and argues that within an RCI explanation of institutional change, one should *'begin with the assumption that the precondition for institutional change is often the assembly of a coalition ... in favour of the changes'*, *ibid* p. 214

However, it is not clear in the utilitarian account of institutional change how collective action would be stimulated, or what mechanisms might bring that about. Barriers or constraints at both institutional and organizational levels to collective action often exist. These collective action problems include differences between individual actors in their utility functions, perceptions of and attitudes toward risk, and both their ability as well as their readiness to collaborate with other actors, especially where in the normal operating context of the institution those other actors would be regarded as competitors.⁴³ Typically, coalition formation and operation will consist in bargaining processes in which the relevant actors will seek to resolve the collective action problems. Hall (2010) has argued that issues of power are *'inescapably bound up with the resolution of such dilemmas'*; the relative power of actors is important here not only in relation to distributive issues but also in relation to the pace and direction of (institutional) change.⁴⁴ It would seem therefore where collective action features in a utilitarian explanation of institutional change, ultimately such an explanation partly also involves a 'political' or power explanation.

- Power. The uneven distribution of costs and benefits between actors which is assumed in the power explanation of institutional reproduction *'means that a dynamic of potential change is built into institutions'*.⁴⁵ It is assumed actors that have been disadvantaged in the initial distribution of resources will seek to improve their position just as those with greater relative power will seek at least to maintain theirs. This dynamic may eventually lead to institutional change which is either endogenously or exogenously stimulated. For example, subordinate groups of actors may eventually combine their forces and successfully challenge the status quo (endogenous change). Alternatively, the advantaged actors may become so successful in the contest over resources distribution that dominant norms of fairness in the society at large are perceived to be transgressed and provoke exogenous interventions in the institution over distribution outcomes (exogenous change).

The above analysis suggests that within an overall HI approach, each of the four perspectives can be associated with accounts of institutional change. However there are differences between them in the scope of such accounts and the extent to which they can be used to 'explain' institutional change. In regard to the scope of explanations of change only the utilitarian and power perspectives can encompass both endogenous and exogenous sources of institutional change. Each of the four perspectives can be used in conjunction with concepts of 'exogenous shocks/phenomena' and 'critical junctures' to explain institutional change; e.g. an exogenous shock can presage a critical juncture when for a while ideas about institutional alternatives are advocated and considered, new institutional arrangements established, and new historical dependence processes are subsequently initiated. However, beyond this there are differences between the perspectives, especially in regard to providing accounts of endogenously sourced institutional change and in providing accounts of the mechanisms of change, whether exogenous or endogenous.

The functional explanation cannot be used to provide an account of endogenous change; the functional explanation focuses on phenomena exogenous to the institution as the stimulus of institutional change; however, the mechanism(s) by which such exogenous change is effected is not specified. The legitimation explanation mostly focuses on explanations of institutional change which

⁴³ In this connection 'change agents' have been described as potential facilitators of change, particularly *'in helping individual actors to overcome the collective action problems that prevent institutional transformation'* Mahoney, J. (2000), p. 518.

⁴⁴ Hall, P. (2010), pp 214 -215

⁴⁵ Mahoney, J. (2000), p. 523

follow on from exogenous phenomena; under this explanation the mechanisms of change are usually specified (e.g. the importation of new cognitive frames via new institutional actors). Otherwise however, the legitimation explanation is not usually associated with explanations of endogenous change – assumptions in this perspective regarding the nature of institutions, in particular assumptions about processes of isomorphism driving the genesis and reproduction of ‘logics of appropriateness’, have tended to focus explanations in this perspective to be about institutional stability rather than about institutional change.⁴⁶

Theoretically, it seems that the utilitarian perspective can be used to provide accounts of both endogenous and exogenous change. In regard to endogenous change however, we have seen in a utilitarian perspective the ‘collective action problem’ implies that for radical change to be effected at the overall institution level, a coordination between institutional actors which is unusual in both its level and scope, is required and which, in the nature of the substantive concerns and ends of that coordination, will involve power dynamics. In practice however, according to Mahoney and Thelen (2010), analysts adopting a utilitarian perspective have usually used a comparative statics approach rather than a dynamic approach such as HI. In a comparative statics approach, institutions are usually assumed to be self-enforcing with coordinating mechanisms that sustain particular equilibria.⁴⁷ Consequently, although theoretically the utilitarian perspective can be used to provide accounts of institutional change, this has not been the usual practice.

We have already seen above that a power explanation can be used within a HI approach with concepts of historical dependence, to provide accounts of both endogenous and exogenous institutional change. Mahoney and Thelen (2010) went further and argued that only a power perspective had the potential to provide a general model of institutional reproduction and change, ‘*particularly one which could comprehend both exogenous and endogenous sources of change*’.⁴⁸ Within an HI approach, legitimation and utilitarian explanations accounts of exogenous sources of institutional change had been provided. However, those accounts ‘*tended to fall back on a discontinuous model of change in which historical pathways were periodically punctuated by moments of agency and choice*’.⁴⁹ What these explanations did not usually provide were accounts of endogenously sourced institutional change.

In a power explanation, however, the potential to provide a comprehensive account of institutional change was already built in to the concept of institutions, specifically that institutions were ‘*distributional instruments laden with power implications*’.⁵⁰ In regard to explanations of endogenously sourced institutional change, this potential was argued to be substantively founded: Mahoney and Thelen (2010) contended that institutions generally had two features – *ambiguity* and *discretion*. These features were important because ‘*matters of interpretation and implementation can have profound implications for resource allocations and substantive outcomes*’; consequently, Mahoney and Thelen argued, in a power distribution context ambiguity in the rules was likely to remain as a ‘site of conflict’ between actors with different interests.⁵¹ These features were connected: *ambiguity* in the rules of an institution provided opportunities for actors to interpret and apply the rules in ways which were aligned with their interests; *discretion* in the application of the rules, in the neglect or removal of rules, and/or in the introduction of new rules, provided actors

⁴⁶ Mahoney, J. and Thelen, K. (2010), p. 5

⁴⁷ Mahoney, J. and Thelen, K. (2010), p. 6

⁴⁸ Mahoney, J. and Thelen, K. (2010), p. 7

⁴⁹ Mahoney, J. and Thelen, K. (2010), p. 7

⁵⁰ Mahoney, J. and Thelen, K. (2010), p. 8 In support of this concept of institution, Mahoney and Thelen cite Hall, P. (2010) and Skocpol (1995).

⁵¹ Mahoney, J. and Thelen, K. (2010), p. 11

with opportunities to consolidate or improve their position in the outcomes over distribution of resources.

The impact on an institution from incremental changes in its rules and/or in their interpretation and application could vary. An important strength of a 'power distributional approach' was the potential to generate explanations of different types of endogenously sourced institutional change which also ranged in their impact over time from 'incremental' to 'transformative'. For example, following Streeck and Thelen (2005), Mahoney and Thelen (2010) proposed a typology of endogenously sourced institutional change, which included transformational change ('conversion'), breakdown and replacement with a new institution or institutional arrangements ('displacement'), 'drift', and 'layering'. They also proposed a framework in which different types of institutional change could be explained by the characteristics of the institution (such as '*discretion*'), the characteristics of the political environment (such as the relative power of different groups of actors over the form of the institution), and the perceived interests and preferences of 'dominant change agents'.

2.3 Issues in HI (ii): Concepts Compatibility – Institutions, Agency and Historical Dependence

HI approaches are commonly based on social constructionism ontology (SCO).⁵² In SCO as in neo-positivism, social reality is real and knowable to some extent. However, in SCO social reality is also held to be a socially constructed reality and, as such, a contingent reality – a reality which is open to change and which may be socially reconstructed. SCO also assumes the social world is contingent; propositions can be developed to describe and explain that reality but these will be tentative rather than have the certainty of 'laws'.

Given SCO as the basis of an HI approach, the extent to which institutions, perhaps through 'logics' inherent in their structures and processes, '*determined*' the development of those institutions and the behaviours of participating agents was an issue inherent in the approach. For example, some HI theorists have given more weight to institutions than to agency in their explanations of institutional change. Institutional development has been postulated to be governed by an inner logic which was inherent in the structure of the institution itself: a 'dominant path' of institutional development and change would emerge, often reinforced by 'lock in effects' on agents which were associated with positive outcomes for those agents from the institution's processes.

In his review of new institutionalism research, Powell (2007) noted the assumption that institutions functioned primarily to constrain behaviour, that they were 'sticky', which was a 'commonplace' in early variants of new institutionalism had been overtaken by subsequent research. Institutional processes had come to be seen as subject to diverse influences with the resulting ambiguity from such diversity providing a potential as much for differentiation as for homogenisation in a given organizational field; institutionalisation had come to be regarded as a political process with agency at the core of that process and the relative power of actors as decisive.

Hay (2006) has argued that some HI approaches were also deficient in their neglect of the impact of ideas on institutional change.⁵³ To remedy this, as well as a general imbalance between structure and agency which he asserted was prevalent in HI 'practice', Hay advocated a 'constructivist

⁵² The brief outline of social constructionism ontology (SCO) which follows is based on that given by Alvesson, M. and Skoldberg, K. (1990) '*(Post-)Positivism, Social Constructionism, Critical Realism: Three Reference Points in the Philosophy of Science*', chapter 2 pp 15-52 in '*Reflexive Methodology: New Vistas for Qualitative Research*', 2nd edition, Sage Publications, London.

⁵³ Hay, C. (2006) '*Constructivist Institutionalism*', chapter 4, pp 56-74 in '*The Oxford Handbook of Political Institutions*', eds. Rhodes, R., Binder, S. and Rockman, B. Oxford University Press, Oxford

institutionalism' (CI) approach in which agents' goals and interests '*were not a contextually given fact*' or simply '*a reflection of their material and social circumstances*' but were social constructions which were '*ideational*' in nature and often the result of deliberate choices.⁵⁴

However, Bell (2011) argued that the CI approach advocated by Hay et al potentially overstated the extent to which agents were strategic and understated the extent to which institutions, '*as logically prior to individual agents*', might shape the choices which those agents have while also enabling and constraining their actions.⁵⁵ Bell argued instead for a HI approach in which there was an interaction between '*active and interpretative agents*' with their '*institutional and wider structural contexts*' and where '*path contingency*' rather than '*path dependency*' might be the reality.⁵⁶ In this approach (i) agency was shaped, but not wholly determined, by institutional environments (ii) there was no primacy given '*to agents, institutions, structures or ideas ... but each (were) mutually constitutive in a dialectic manner*'⁵⁷ (iii) agents had at least some choices available to them in their institutional environments, whether arising from ambiguity in the rules of the institution and/or from the need for the interpretation of those rules in their application (iv) even where change in an institution was exogenously stimulated it still required agency within that institution to enact change – '*theoretically, no exogenous factor can in and of itself explain the specific forms that institutional change takes*'.⁵⁸

It would appear from the above that the overall HI approach proposed by Bell (2011) could be compatible with a 'power distributional concept' of institutions and also compatible with the use of a power perspective to explain institutional change. The issue arises, however, about the extent to which the concept of agency used in such an approach could be compatible with the use of concepts of historical dependence which were outlined earlier. This issue will also be considered below in relation to of assumptions about 'determinacy' and 'contingency'.

According to Bell (2011), HI was constituted of two different approaches: a structuralist approach and an agent-centred approach. These approaches differed mainly in the assumptions made about the extent to which historical dependence processes determined subsequent institutional outcomes. In the structuralist approach, historical dependence processes (conceptualised mainly in terms of 'path dependence') were assumed to be '*largely determinate*' of institutional outcomes.⁵⁹ For example, Mahoney (2000) conceptualised path dependent processes, comprising '*institutional patterns or event chains*' as having '*deterministic properties*'; outcomes in a path dependent process resulted from prior outcomes which themselves had enfolded '*stochastically*'.⁶⁰ Bell noted that this HI approach had been '*rightly*' criticised for being '*overly structuralist*'; in neglecting agency the approach was reliant on exogenous shocks to explain institutional change and was unable to provide accounts of endogenously sourced institutional change.⁶¹

⁵⁴ Hay, C. (2006), pp 63-64

⁵⁵ Bell, S. (2011) '*Do We Really Need a New 'Constructivist Institutionalism' to Explain Institutional Change?*' in British Journal of Political Science, volume 41, issue 4, pp 883-906

⁵⁶ Bell, S. (2011), *ibid* p. 884, and p. 896

⁵⁷ Bell, S. (2011), *ibid* p. 891. Bell's dialectic of agent, institutions and ideas is similar to Giddens (1984) re-conceptualisation of the traditional **dualism** of agent v structure as a **duality** – structure enables agency but is also affected by the outcomes and consequences of agency. Giddens, A. (1984) '*The Constitution of Society: Outline of the Theory of Structuration*' Polity Press

⁵⁸ Bell, S. (2011), *ibid* p. 896 citing Blyth, M. (2002) '*Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*', Cambridge University press, Cambridge, p. 8

⁵⁹ Peters, B. (2012), p. 70

⁶⁰ Mahoney, J. (2000), p. 507

⁶¹ Bell, S. (2011), p. 890 Notable critics included Streeck and Thelen (2005), Hay (2006), and also the later Mahoney - with Thelen – (2010)

In the agent-centred HI approach, historical dependence processes were conceptualised as ‘influencing’ or ‘affecting’ institutional outcomes. For example, according to Pierson (2000) ‘*path dependent analyses need not imply that a particular alternative is permanently locked in following the move onto a self-reinforcing path*’. ‘*The claims in path dependent arguments are that previously viable options may be foreclosed in the aftermath of a sustained period of positive feedback, and cumulative commitments on the existing path will often make change difficult and will condition the form in which new branching occur*’.⁶² However, quoting North (1990), Pierson also emphasised the contingency in institutional outcomes due to agent choice: ‘*at every step along the way there are choices ... that provide ... real alternatives*’.⁶³ Sewell (1996) also argued for a contingency in the ‘trajectories’ of paths: ‘*Previous events in a sequence can influence outcomes and trajectories but not necessarily by inducing movement in the same direction*’ - events could also function to change the ‘*logic by which consequences followed from occurrences or circumstances*’.⁶⁴

From the above it would appear that within an agent-centred HI approach, the concept of agency can also be compatible with concepts of historical dependence. Could the latter also be compatible specifically with a power distributional approach? In advocating the latter approach Mahoney and Thelen (2010) suggested ‘*breaking with the view*’ that institutions were automatically self-reinforcing and suggested that the assumption that institutions were subject to self-reinforcing processes of whatever kind should be dropped.⁶⁵ While this would rule out the use of deterministic concepts of historical dependence, it should not preclude the use of concepts of historical dependence in a power distributional approach in which it was assumed the existence of such processes was ‘contingent’ and also assumed the extent to which such processes shaped the opportunities and choices available to agents, and consequently the impact of these processes as mediated through agency on institutional form, reproduction and change, was an empirical matter.

It can also be argued that the compatibility of historical dependence concepts with an empirically grounded power distributional approach was further facilitated when a range of those concepts was used, such as the range of types of historical dependence processes outlined earlier in this chapter. The latter also opens up the possibility within an object of historical dependence such as the stability impacts of an IOR, that different forms and types of historical dependence may not only occur over time but may also coexist on different dimensions of the IOR.

2.4 Issues in HI (iii): Concept of Agent and Relations of Power between Agents

2.4.1 Concept of Agent

In this research inquiry the IOR agents were the NHS education buyer/commissioner and Middlesex University. Given that analysis in this research inquiry was mainly at the level of the IOR and its environment rather than at an intra-organizational level, the concepts of organization as agent and of organizational agency were useful ones for this research inquiry. To meet the potential objection that in SCO only individuals or groups of individuals can be ‘agents’, Giddens (1984) suggested that the concept of ‘corporate’ or ‘organizational’ agency be used as a shorthand description of the outcomes of interactions between individual agents or groups of agents within the relevant

⁶² Pierson, P. (2000), p. 265

⁶³ Pierson, P. (2000), p. 265

⁶⁴ Sewell, W. (1996), p. 261.

⁶⁵ Mahoney, J. and Thelen, K. (2010), p. 9

organization. The same also applies to the concept of organization as agent where it is assumed that an individual or group acts on behalf of the organization.⁶⁶

2.4.2 Relations of Power between Agents

The power of agents relative to the power of other agents has been a recurring theme in HI. This has been the case in regard to explanations of institutional change and in the use of compatible concepts of institutions, agents and historical dependence. For example, the relative power of actors has been claimed to be '*decisive*' in processes of institutionalisation (Powell 2007) and has been argued to be '*important*' in regard to distribution issues (Mahoney and Thelen 2010; Hall 2010) and also in regard to the pace and direction of institutional change (Hall 2010). In the agent-centred HI approach proposed by Bell (2011) the '*duality of agents and institutions*' could also be conceptualised partly as involving a 'duality of agents': the relative power of other agents might function to constrain as well as to enable agency. In a power distributional concept of institutions the relative power of actors was also claimed to be key in the resolution of distributional issues; Mahoney and Thelen (2010), based their '*theory of gradual institutional change*' on a concept of 'dominant change agents' and in the exploitation by those agents of ambiguity in the rules of an institution and the use of their discretion in the interpretation and application of those rules.

Since the relative powers of agents has been placed theoretically at the centre of an agent-centred HI approach,⁶⁷ then it can be argued that the relations between agents should also feature as an important dimension in such an approach and figure prominently in explanations of institutional reproduction and change. Given this, how might relations between agents, particularly in terms of the relative powers of agents in IOR settings, be conceptualised in an agent-centred power distributional HI approach? This question is considered below in four parts: (1) power: concepts and perspectives (2) Foucault's theory of power: nature, ubiquity and games, inequality and asymmetry – Foucault's theory was selected on the basis of its potential explanatory and methodological relevance to the inquiry (3) sources of power and a theory of power in IOR – resource dependence theory was selected on the basis of its potential relevance to the explanation of the in/stability over time of the IOR that was the substantive focus of this research inquiry (4) IOR institutional environment – an institutional environment which had characteristics associated with monopsony was selected, also on the basis of its potential relevance to the research inquiry.

2.4.2.1 Power: Concepts and Perspectives

Power has been defined as *ability*, either to do something or to bring about something (Morriss, 2002). The *ability* was exercisable at will, whether reflectively or routinely. In this research inquiry the focus was on political and economic power in an IOR setting, particularly on the relative power of IOR agents. Here the power of an IOR agent such as an organization arose partly from its relations to other organizations and partly from its institutional environment. Morriss (2002) defined the concept of political power more precisely by introducing the concept of 'opportunity'. Only because an organization was situated in a particular environment, including its institutional environment and relations with other organizations, did it have the 'opportunity' to exercise its abilities. This meant that the social and political power of an organization was not solely a property of the organization;

⁶⁶ Giddens, A. (1984) p. 221

⁶⁷ A 'power distributional' approach such as that proposed by Mahoney and Thelen (2010) is defined here as an example of an 'agent-centred' HI approach such as that proposed by Bell (2011).

rather it was the combination of the opportunities open to the organization (as a property of its environment) *given* the abilities of that organization.⁶⁸

Exercise of Power: Morriss (2002) distinguished ‘power’ from the ‘exercise of power’. While ‘power’ denoted some ability to do something, the ‘**exercise of power**’ referred to the actual deployment of those abilities by the agent (i.e. an action, or the bringing about of something). In their review of the IOR literature, Huxham and Beech (2008) identified three perspectives on the exercise of power, viz. ‘power over’, ‘power to’ and ‘power for’; the differences between these perspectives consisted in how, and to what ends, power was exercised.⁶⁹

‘**Power over**’ was defined as an agent’s ability to determine or influence the context in which power may be developed and the situation in which it may be exercised. In ‘power over’ one agent dominated another agent: agent A dominated agent B so that outcomes were in the interests of A. Bachrach et al (1962) argued this domination could apply both to decision making on key issues which ‘were on the agenda’ and to potential issues i.e. whether or not some issues came on to the agenda at all.⁷⁰ Lukes (1975, 2005) extended the concept of ‘power over’ to include the ability of an agent (Agent A) to ‘influence’, ‘shape’, or ‘determine’ the goals and preferences of another agent (Agent B) such that the latter came to perceive their interests in a particular way, a way which suited Agent A.⁷¹

In a ‘power over’ perspective it was assumed that power was exercised so that the dominant agent would gain some benefit for itself rather than necessarily for the IOR as a whole; in this perspective the concern was with control.⁷²

‘**Power to**’ perspectives were ‘*concerned with the power of an IOR to achieve its ends by helping it to function effectively*’.⁷³ In this perspective the concern was with joint outcomes; to bring about these outcomes IOR agents may have acted in varying degrees of collaboration with each other.

‘**Power for**’ perspectives were ‘*concerned with using IOR to transfer power to another party*’ (agent).⁷⁴ An example of this would be where in a contract between the organizations in an IOR, there was an agreement to exchange resources from one organization to another in consideration for the other organization’s expertise or for the outcomes of the use of that expertise.

Given the apparent differences between them, these three perspectives (‘power over’, ‘power to’ and ‘power for’) on the use of power in IOR have usually been taken as alternative perspectives. However, Huxham and Beech (2008) suggested that the three perspectives were not necessarily mutually exclusive: ‘*an argument can be made that all three perspectives ... are at least partly rooted*

⁶⁸ Morriss, P. (2002) ‘*Power: A Philosophical Analysis*’ 2nd edition, Manchester University Press, Manchester, p. 244

⁶⁹ Huxham, C. and Beech, N. (2008), p. 563

⁷⁰ Bachrach, P. and Baratz, M. (1962) ‘*Two Faces of Power*’, The American Political Science Review, Vol. 56 no. 4 pp 947-952. Los Angeles.

⁷¹ Lukes, S. (2005) ‘*Power: A Radical View*’, 2nd edition, Palgrave Macmillan, Basingstoke, Hampshire. In this research inquiry no assumptions were made about whether agents acted strategically (whether consciously or from habit) or as the ‘product of structural forces’; how agents came to perceive their interests (i.e. what agents perceived would be of advantage to them) and consequently how their preferences and goals were formed and changed were taken as empirical matters where both agency and the institutional environment were potentially important.

⁷² Huxham, C. and Beech, N. (2008), p. 561

⁷³ Huxham, C. and Beech, N. (2008), p. 561

⁷⁴ Huxham, C. and Beech, N. (2008), p. 562

in the power over position; it is how those with power make use of it that makes the difference'.⁷⁵ This point is developed further in the next section which deals with Foucault's theory of power.

2.4.2.2 Foucault's Theory of Power

Nature of Power: in Foucault's theory of power 'the term "power" designates relationships between partners'⁷⁶ These power relationships are distinguished firstly from "capacities" which are defined as agents' relations to 'things' - specifically their abilities to modify or use things - and secondly from 'relationships of communication'. While each of these relationships 'always overlap one another, support one another reciprocally and use each other mutually as means to an end', these relationships are different from each other: 'power relationships have a specific nature ... certain persons exercise power over others'.⁷⁷ Thus in so far as 'power to' and 'power for' perspectives outlined above consist in or are predicated upon relationships between agents then in Foucault's theory of power both of these perspectives are part of a 'power over' perspective. However, within a Foucault type 'power over' perspective 'the exercise of power can be both repressive and productive' from the standpoints of the relevant agents (Lukes 2005) or simultaneously 'negative' and 'productive' (Gaventa 2003). The exercise of power (as defined by Foucault) may result in a removal of options available to others but it may also result in the empowerment of others (Lemke 2000).

Ubiquity of Power and Power Games: in Foucault's theory, power is ubiquitous: 'power appears in every moment of social relations' and 'comes from everywhere' (Gaventa 2003; Garland 1990). A manifestation of that ubiquity in human interaction is in 'strategic games' in which agents try to determine the conduct of other agents, whether directly or indirectly through structuring the possible field of action of others (Lemke 2000, Foucault 1988). While these games can take many forms, e.g. 'ideological manipulation, rational argumentation or ... economic exploitation' (Lemke 2000), Foucault also argued that there were three types of power games or 'struggles' - against forms of domination or against forms of exploitation which separate individuals from what they produce or against forms of subjection (Foucault 1983). However, although power games were generally one of these three types, these types could be closely related in terms of their mechanisms. For example, 'the mechanisms of subjection cannot be studied outside their relation to the mechanisms of exploitation and domination' (Foucault 1983). The modes in which these power games are played can be 'spontaneous' or 'systematised and regulated' which follow a formalised "rationality" 'which defines the teleos of action' (Lemke 2000). An example of the latter mode is "Government" defined as 'the regulation of conduct by the ... rational application of the appropriate technical means' (Lemke 2000 citing Hindess 1996).

Power Inequality and Asymmetry: a characteristic of power games is the potential for the initial relative powers of the participants ('players') to change during the course of a game. Thus where there were relative power inequalities at the outset of a game these inequalities can increase or decrease on particular issues and/or in particular 'strategic situations'. A key potential outcome of power games is where relative inequalities of power develop to become asymmetrical relationships of power between the participants in the game. Such power asymmetries or 'states of domination' are where some of the game participants have, relative to other participants, little room for manoeuvre because their 'margin of liberty is extremely limited' (Lemke 2000 citing Foucault 1988).

⁷⁵ Huxham, C. And Beech, N. (2008), p. 563

⁷⁶ Foucault, M. (1983)

⁷⁷ Foucault, M. (1983)

However, the asymmetries of power in power games may be brought about not only as a result of the playing of the game'. Power asymmetry might also be present at the outset of a game and brought about mainly through the design of the game itself, its rules and regulations. In this regard government and the technologies of government can be deployed so that from the outset a game might be 'rigged' so that a state of domination becomes a highly probable outcome from the playing of the game. However, Foucault's theory of power, particularly as developed in his later writings does not necessarily equate to a structural determinism; on the contrary, individuals are not limited to reacting against power, but may seek to alter power relationships in ways that expand their possibilities for action (Foucault 1988). Thus players might still seek to change the rules of a game or/and exploit differences between actual situations and those situations envisioned or specified in the regulations of a game, or use ambiguities in the existing rules to interpret those rules in ways which further their perceived interests and in so doing assert the appropriateness of particular actions, or use such discretion that they may have in exercising a 'veto' (Mahoney and Thelen 2010).

2.4.2.3 Sources of Power and a Theory of Power in IOR

Sources of Power in IOR: In their review of research on power relationships in IOR settings generally, Huxham and Beech (2008) found that many **sources of power**, on which the power of agents relative to each other was based, had been identified. They categorized these sources into three types:

- **Resource needs imbalance:** relative power of IOR agents was based on an imbalance in their respective needs for resources (e.g. skills, information, and money).
- **Mutual dependence:** relative power of IOR agents was based on an imbalance between them in the 'importance' or "centrality" of the IOR.
- **Structural:** relative power of IOR agents was based on the structural relationships between them. Structural relationships could take many different forms, such as in formally acknowledged authority relationships between the IOR agents, or in a formal contract between them in which the respective responsibilities and rights of the agents in the IOR were specified and which also functioned as the mechanism which governed the conduct of the IOR. The institutional environment of the IOR could also be an important structural factor in the relative power of agents, for example in regard to differences in the respective powers of IOR agents in different market environments, such as monopoly or monopsony.

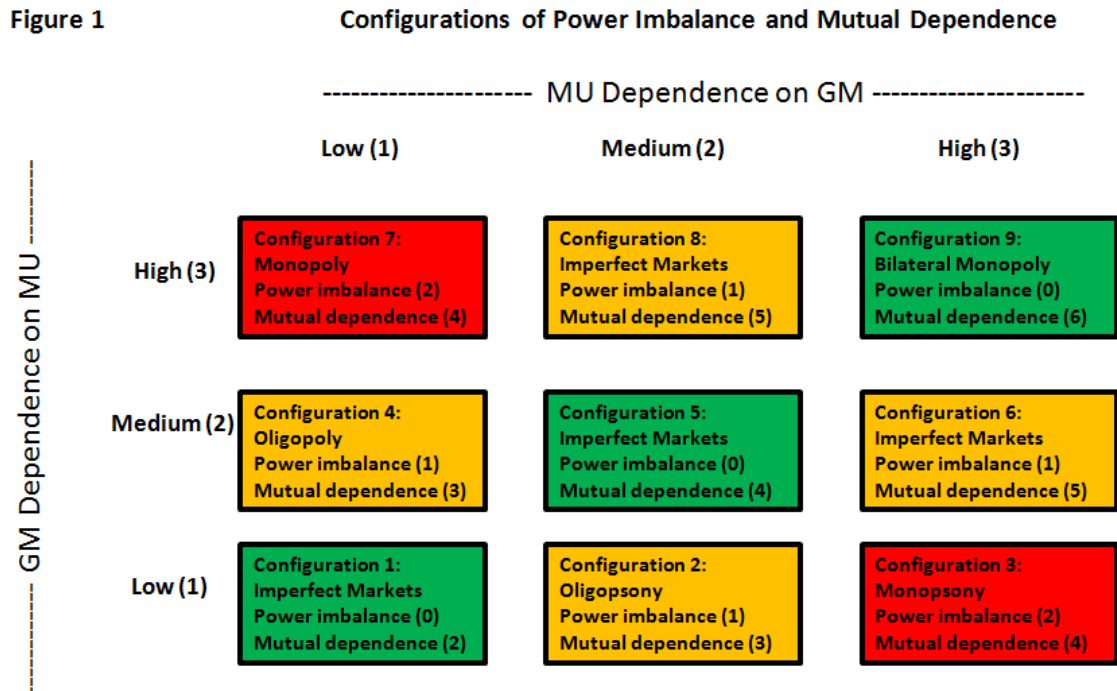
A Theory of Power in IOR: Huxham and Beech (2008) argued that these three sources of power in IOR settings should not be assumed to be exhaustive nor should they be assumed to be mutually exclusive alternatives. Rather, these sources of power should be considered '*in combination*'.⁷⁸ In their reformulation of **resource dependence theory** (RDT) Casciaro and Piskorski (2005) considered two of these sources of power in combination; they argued 'resource needs imbalance' and 'mutual dependence' had been conflated as 'interdependence' in the original formulation of RDT by Pfeffer and Salancik (1978, 2003). An unintended consequence of this was that although constructed as a theory of power-dependence relations in dyads, RDT had previously been focussed on the dependency of only one of the actors in a dyad; the reciprocal dependency of the other actor had not adequately been taken into account.⁷⁹ To remedy this, Casciaro and Piskorski proposed a new formulation of RDT in which these two sources of power were distinguished and which *in combination* they argued could be used to explain the outcomes of dyadic relationships.⁸⁰ In

⁷⁸ Huxham, C. and Beech, N. (2008), p. 566

⁷⁹ Casciaro, T. and Piskorski, M. (2005), p. 169.

⁸⁰ Casciaro, T. and Piskorski, M. (2005), pp 169 - 171

combination these two sources of power could result in many different configurations of relative power; this was illustrated below in Figure 1.



Source: Adapted from Casciaro and Piskorski (2005), p.171

Figure 1 is based on Emerson's theory of dyadic power, in which it is assumed that the power of MU over GM (or of GM over MU) is inversely proportional to the dependence of GM on MU (or of MU on GM). It is also assumed that the dependence of one actor on the other is a function of 'resource criticality' and the availability of alternative actors of 'critical resources'. Thus MU (or GM) is dependent on GM (or MU) in proportion to the need of MU (or GM) for resources that GM (or MU) can provide and inversely proportional to the availability of alternative actors that are capable of providing the same resources to GM (or MU).⁸¹ In Figure 1:

- The first dimension of dyadic power - '*power imbalance*' - is defined as the difference in power of each actor over the other; the second dimension of dyadic power - '*mutual dependence*' - is defined as the bilateral dependencies in the dyad.⁸²
- The level of dependence of MU on GM increases along the x axis; the level of dependence of GM on MU increases along the y axis.
- Nine different potential configurations of power imbalance and mutual dependence between actors MU and GM are depicted. Dyads in the green shaded boxes are power balanced but with different levels of mutual dependence; the lowest level of mutual dependence is in configuration 1, the highest in configuration 9.
- In dyads above the diagonal green shaded boxes (configurations 4, 7 and 8), power imbalance favours actor MU. Conversely, power imbalance favours actor GM in dyads below the diagonal (configurations 2, 3 and 6).

⁸¹ Emerson, R. (1962)

⁸² Casciaro, T. and Piskorski, M. (2005), p. 170

Widening the application of RDT to IOR generally: Casciaro and Piskorski (2005) used their formulation of RDT to explain the incidence of mergers and acquisitions (M&A) in U.S. public companies; they found support for their hypotheses that M&A (*'constraint absorption'*) were less likely the greater the power imbalance between organizations, and more likely the greater the level of mutual dependence. However, Casciaro and Piskorski also noted that the potential application of RDT was wider than M&A and could include the range of arrangements by which organizations sought to control their external environment through IOR to achieve 'partial constraint absorption' e.g. via long term contracts, joint ventures, and strategic alliances.⁸³

Increasing the Scope of RDT - Time: Huxham and Beech (2008) suggested that RDT arguments could be *'taken much further'* through introducing a time dimension. Over time, within a given IOR, different sources or 'types' of *'power holdings'* might be held by different IOR agents.⁸⁴ A potential consequence of such differences would be changes over time in power imbalances and changes to levels of mutual dependence in an IOR. Such changes could be associated with changes in the strategies available to IOR actors and in their effectiveness when deployed in contests over the distribution of resources in an IOR. Tracking such changes in an IOR could provide an opportunity for increasing the scope of RDT from explanations of why IORs were established to explanations of the outcomes of IORs, once established. The latter would require mapping changes over time in resource dependence and in the interrelationships between resource dependence and historical dependence.

Increasing the Scope of RDT – Using Multiple Perspectives on the Exercise of Power: on the premise that 'power over', 'power to' and 'power for' are not necessarily mutually exclusive perspectives,⁸⁵ it is suggested here that RDT arguments about IOR outcomes could also be taken further through using a combination of these three perspectives e.g. (i) how power is used in an IOR and to what ends might change over time (ii) how power is used at a given time might also be different between different dimensions and different contexts of an IOR.

Contextualising RDT – The Institutional Environment: In the Casciaro and Piskorski formulation of RDT, two sources of power - 'resource needs imbalance' and 'mutual dependence' were considered in combination. The third source of power identified by Huxham and Beech – structural – was subsumed in RDT under 'power imbalance' (e.g. the potential availability of other providers of critical resources was assumed to be a key factor determining the balance of power in a dyad). Where RDT is contextualised to include a time dimension there is also an argument for distinguishing structural sources of power as a separate source of power. This would enable consideration of the interaction of members of a dyad with their institutional environment and the impact of that interaction on power imbalances/balances in the dyad and on the institutional environment.

⁸³ Casciaro, T. and Piskorski, M. (2005), p. 168. The specific relevance to this research inquiry was in regard to IOR for 'partial constraint absorption' via formal contracts.

⁸⁴ Huxham, C. and Beech, N. (2008), p. 566

⁸⁵ Huxham, C. And Beech, N. (2008), p. 563

2.4.2.4 IOR Institutional Environment – Monopsony and Monopsony Power

Monopsony: The IOR investigated in this research inquiry was constituted as a formal contract of exchange and located in an institutional environment which could be described as a monopsony. Monopsony has been defined as the economic condition where there is one buyer (the 'monopsonist') and many sellers '*of a well-specified good or service*'.⁸⁶ Under this overall definition, the main underlying conditions of monopsony have been defined as:

1. From the monopsonist's standpoint, individual sellers are perfectly substitutable for each other. The substitutability of sellers for each other is facilitated partly by the 'well specified' nature of the good or service and partly by the behaviours of the sellers, which are assumed usually not to act in concert, whether by informal collusion and/or by formal coalition. Since suppliers do not act in concert, the exchange relations in a monopsony usually consist mainly in the set of individual dyadic relations between each seller and the monopsonist. Where sellers facing a single buyer join together in a coalition and act in concert, the resulting market arrangement is a bilateral monopoly. However, where the arrangements of the coalition are not enforceable between its members then the market might in effect still function as a monopsony.
2. From the sellers' standpoint, no alternative buyers are available to them nor will alternative buyers become available nor is it open to sellers economically to withdraw from selling their well specified product by exiting from the monopsony. As a consequence sellers' individual supply curves, as well as the aggregate supply curve for the monopsony, are upward sloping and usually relatively inelastic. All this can be for a variety of reasons:
 - Alternative buyers for the 'well specified product or service' will not become available because the monopsony enjoys statutory or government protection, or because of high barriers to entry (such as relatively high start up costs) for new buyers. Or it might be because sellers are unable, *within a given time horizon*, economically to develop substitutes for their outputs to the monopsony for which prospective alternative buyers would be available. This might be because the specialised nature of the sellers' resources means these can economically be used only in the production of the 'well specified' goods or services purchased by the monopsonist. Under this condition, sellers, particularly organizations, can operate simultaneously in markets which are monopsonistic and others which are not. What matters here is whether the specialist nature of the resources of the seller precludes their economic redeployment to the other non-monopsonistic output markets in which the seller operates. Consequently, in testing for the existence of a monopsony, the length of the time horizon assumed or selected might be crucial. For example, over a relatively longer time horizon, sellers might have the opportunity economically to transform their specialised resources so that these become usable in the production of other kinds of goods or services for which alternative buyers would be available.
 - Sellers' individual exit costs from the monopsony are relatively high both in the short run and in the long run.

Given the above underlying conditions a key characteristic of monopsony is an imbalance in the relations of resource dependence between the monopsonist and its individual suppliers. Since no alternative buyers are available to an individual seller, but alternative sellers are available to the monopsonist, the resource dependence of each individual seller on the monopsonist is greater than the resource dependence that the monopsonist has on any individual seller. This imbalance in

⁸⁶ Blair, R. and Harrison, J. (2010) '*Monopsony in Law and Economics*' p. 1, Cambridge University Press, New York.

resource dependence between the monopsonist and an individual seller is further reinforced by the relatively high exit costs to an individual seller from exiting the monopsony.

In terms of Emerson's theory of power dependence relations, the underlying conditions of monopsony indicate a substantial power imbalance in favour of the monopsonist, in the dyadic relationships between the monopsonist and its individual suppliers.⁸⁷ Thus in figure 1 an IOR between GM (as the monopsonist) and MU (as an individual supplier) would map on to either of the configurations, 2 or 3; in a 'pure monopsony', i.e. where all of the underlying conditions of monopsony as specified above were met and where the power imbalance was greatest, the IOR would map on to the red shaded configuration 3; where the monopsony took the form of a 'dominant buyer' or oligopsony then the IOR would map on to configuration 2. In practice there might be little difference in the consequences for a given IOR between configurations 2 and 3.⁸⁸

Monopsony Power: Definitions of monopsony power given in the literature have centred on consequences for prices, outputs, and the distribution of economic rents predicted from the exercise of monopsony power. For a 'pure monopsony' the economic power of the monopsonist has been defined as equal to the reciprocal of the elasticity of supply.⁸⁹ As Blair and Harrison (2010) noted, there are few examples of 'pure monopsony' in the real world.⁹⁰ However, there are many examples of where, in pursuit of its perceived interests a 'dominant buyer' or a buyer cartel ('collusive monopsony') may exercise monopsony power.⁹¹ For these forms of monopsony Blair and Harrison (2010) proposed a model of monopsony power which in addition to the elasticity of supply also includes variables for the market share of the dominant buyer and the elasticity of demand for the fringe buyers.

Irrespective of the precise form of the monopsony (whether 'pure' or 'dominant buyer'), OECD (2008) has defined monopsony power more generally as a kind of buyer power '*to mean those instances where a price decrease is such that it falls below competitive levels*'. Associated with the latter were '*a corresponding decrease in the input supplied or in any other dimension of competition*'; the other dimensions of competition included '*quality adjusted decreases in output and changes in terms of trade that amount to a price decrease*'.⁹²

⁸⁷ In this dissertation the terms 'sellers' and 'suppliers' are distinguished only in that 'sellers' include potential suppliers as well as actual suppliers. A supplier is simply an actual supplier.

⁸⁸ In figure 1, ordinal scales (1-3 and 2-6, 'high', 'medium', 'low') have been used for 'power imbalance' and for 'mutual dependence'. Thus nothing can be concluded from figure 1 about the extent to which power imbalance and mutual dependence are different between individual configurations.

Stucke (2013) and others have argued that monopsony is the 'mirror image' of monopoly. In relation to figure 3, IORs in monopoly where MU was a monopolist and GM a buyer, would map on to configuration 7. Similarly, to the extent that oligopoly was a mirror image of oligopsony then oligopoly would map on to configuration 4. Various types of other 'imperfect' markets are shown as mapping on to the remaining configurations, 1, 5, 6 and 8. Again, depending upon the extent to which power imbalances and mutual dependencies were different between the different configurations then these configurations may predominantly reflect the characteristics of specific types of imperfect markets e.g. bilateral monopoly in configuration 5, oligopsony in configuration 6, and oligopoly in configuration 8. 'Perfect Markets' have been deliberately omitted from the schema, e.g. such markets are not suggested as potentially mapping onto configuration 1; why this is so is discussed in Chapter 9.

⁸⁹ Pigou, A., (1924) '*The Economics of Welfare*' 2nd edition, Macmillan, London

⁹⁰ Blair, R. and Harrison, J. (2010), p. 55.

⁹¹ Blair, R. and Harrison, J. (2010), pp 48, 49, 55 - 60, 67

⁹² OECD (2008) '*Round Table on Monopsony and Buyer Power*', paragraph 1.1.7 note by the Canadian Competition Bureau and paragraph 1.2. Available at: <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/02995.html> Accessed August 2013.

Under all of these definitions, the monopsonist can exercise power unilaterally to determine the total output of its suppliers (and consequently affect price) and/or price (and consequently affect total output). Depending on the elasticity of the supply curves the exercise of monopsony power could have profound effects on suppliers in the monopsony, either collectively or/and individually. For example:

- Given upward sloping supply curves and also an aggregate supply curve that was upward sloping and relatively inelastic, a decrease in price would usually lead to a decrease in the output levels of suppliers. However a decrease in price might instead lead to an increase in output for example if suppliers faced with the fixed costs of their current production capacity tried to make up for a reduced income due to a reduction in unit prices by seeking to supply more output.⁹³
- Alternatively, the outcome of a price reduction under monopsony might be to leave output levels the same under either or both of the following conditions:
 - Where the monopsonist was able to discriminate on price so as to pay each seller only the minimum amount for that seller to continue to supply. Here, the monopsonist may be able to *'target more efficient suppliers and extract from them their incremental profits'*.⁹⁴
 - Where the aggregate supply curve under the monopsony was perfectly inelastic.⁹⁵ Here the monopsonist would be able to target *'suppliers with lower short-run costs and extract from them their quasi-rents'*.⁹⁶ Blair and Harrison (2010) have argued that a monopsonist that was able to offer contracts to its suppliers on an all-or-none basis would be able to do this.⁹⁷

Thus a monopsonist could exercise its power to extract all of the economic rents in a monopsony while also extracting from individual suppliers all or some of their quasi-rents.

2.5 Issues in Monopsony and Government Monopsony: IOR Stability over Time

Given the potential consequences of the exercise of monopsony power noted above, the stability over time of IORs within the monopsony becomes an issue. This is particularly the case from the standpoint of an individual supplier: (i) the existence of many suppliers and potential suppliers as well as their substitutability mean that the mutual dependence of the monopsonist on a particular IOR is relatively low. Under such conditions, the survival of individual IORs in the M_G may be under constant threat (Inkpen and Beamish 1997); (ii) the relative distribution of benefits, costs and risks in an IOR between the monopsonist and an individual seller is likely ultimately to reflect the power

⁹³ Stucke, M. (2013) *'Looking at the Monopsony in the Mirror'*, College of Law Faculty Scholarship, Tennessee Research and Creative Exchange, p. 10. Available at: http://trace.tennessee.edu/uth_lawpubl/59

⁹⁴ Stucke, M. (2013), *ibid* p. 9, citing Noll, R. (2005) *'Buyer Power and Economic Policy'*, in *Antitrust Law Journal* 589, 589; the 'incremental profits' equate to the 'producer surpluses' normally available to those suppliers whose marginal revenues exceed their marginal costs at the point where market aggregate demand and supply are in equilibrium.

⁹⁵ Stucke, M. (2013), *ibid* p. 9; OECD (2008), paragraphs 1.1.7 and 2.3.20

⁹⁶ Quasi-rents are defined as *'the difference between a supplier's total revenues and short-run total costs'*; Stucke, M. (2013), *ibid* p. 9, citing Noll, R. (2005) *'Buyer Power and Economic Policy'*, in *Antitrust Law Journal* 589, 589. Short-run total costs include variable costs such as labour and materials; short-run costs exclude fixed costs such as the cost of plant and machinery, as well as sunk costs such as the cost of a patent.

⁹⁷ The all-or none supply curve lays below and to the right of the normal supply curve and reflects the response by sellers to the question: 'what would be the maximum they would supply at a given price when the alternative would be to supply nothing at all?' Blair, R. and Harrison, J. (2010), pp 83-85

imbalance in favour of the monopsonist. This issue, of stability over time, is considered below in the context of a dyad, from the respective standpoints of the individual supplier and the monopsonist in an IOR. Whether the issue of IOR stability might be different when the IOR is located within a government monopsony is also considered. First however, to enable consideration of the issue a concept of IOR stability is defined more precisely. The particular type of IOR assumed in the following is one which was relevant to this research inquiry, i.e. one where the relations of exchange were governed by a formal contract between a government monopsonist buyer and the supplier.

2.5.1 A Concept of IOR Stability over Time

Concepts of IOR stability have been developed in previous research for contract forms of IOR – particularly mergers – and also developed for non-contract forms of IOR, including alliances, networks and joint ventures. Some of these concepts have been defined in terms of a single dimension (such as ‘survival’) which has been taken as an indicator of the overall stability of the IOR. However, an IOR might ‘survive’ and even have a ‘good current performance’ from the standpoints of the organizations in the IOR, while at the same time be exposed to relatively significant threats to its future performance and survival. Thus an IOR which was considered only from a standpoint of its current performance and survival might be concluded to be apparently stable but when in addition to its current performance the same IOR was considered from a risk management perspective and the future prospects for that IOR, a different conclusion might be reached e.g. that the IOR was unstable or had entered a range of instability. Consequently, it was assumed in this inquiry that a multi-dimensional concept of IOR stability which was future orientated and explicitly incorporated risk as a factor could potentially be a more useful concept. A multi-dimensional concept of IOR stability also had the potential advantage of allowing the possibility that an IOR could, over time, exhibit different stability states across a range of dimensions.

After a review of literature on IOR⁹⁸ the following definition of IOR stability over time is proposed:

1. IOR stability over time is a condition in which an IOR maintains a sustainable performance from the standpoints of the organizations in the IOR.

As part of the above definition the following underlying conditions are assumed:

(A) IOR performance risks, and burdens associated with those risks, are allocated sustainably between the organizations in the IOR and managed by them.

(B) Demand and supply in the IOR continually adapts to changes in the environment of the IOR, e.g. through changes in demand or by processes of cost reduction or by innovation in production technology.

(C) Adverse shocks to the IOR whether these arise exogenously to, or endogenously in the IOR are absorbed in the IOR so that conditions conducive to a sustainable performance of the IOR from the standpoints of the organizations in the IOR are maintained.

The above definition of IOR stability over time has the following characteristics:

(i) Dynamic. The concept takes account of change over time. No assumptions are made in the concept about the environment of the IOR: the latter may be turbulent, and frequent systematic

⁹⁸ Xia (2011), Huxham and Beech (2008), Daz and Teng (2001), Inkpen and Beamish (1997), Yan and Gray (1994), Child, Faulkner and Tallman (1998)

shocks to the IOR may occur. Thus, whether the IOR was stable or unstable over time would also be a function of the response and/or the capacity of the organizations in the IOR to respond, to actual *or potential* turbulence and shocks.

(ii) Multi-dimensional. IOR stability over time is conceptualised as a continuum on several dimensions, rather than as a specific value for a single variable.

(iii) Normative. What counts as a 'sustainable performance of the IOR' will depend largely on the criteria used by the organizations in the IOR. Thus, there may be criteria relating to the distribution of costs, benefits and risk burdens between the organizations in the IOR, as well as criteria relating to output quality, quality assurance processes and production costs.

Definitions of IOR *instability*, as corollaries to the definition of IOR stability given above, are also proposed:

2. An IOR is in a range of instability when its sustainable performance and/or the sustainable performance of the organizations in the IOR are impaired and there is a significant likelihood that impairment will continue.

Examples under this definition would include the impacts of exogenous shocks to the IOR which, from the standpoints of the organizations in the IOR, were increasingly taking the IOR away from an appropriate management of risks or a sustainable distribution to the organizations in the IOR of the benefits from the IOR.

3. An IOR is entering a range of instability when there is a significant threat to the impairment of its sustainable performance and/or to the sustainable performance of the organizations in the IOR over time.

This definition allows for the possibility that an IOR might currently exhibit stability (such as in the current performance of the IOR) but nonetheless in one or more of the conditions for stability of the IOR there are significant risks to the future performance and consequently to the future stability of the IOR.

2.5.2 IOR stability over time in monopsony - supplier's standpoint

Emerson (1962) argued that in general an unbalanced power-dependence relation was '*unstable*' because '*it encouraged the use of power (by the more powerful actor) which in turn set in motion processes (of) ... **cost reduction** and ... **balancing operations***'.⁹⁹ Processes of 'cost reduction' in a dyad were those in which the weaker actor found means to comply with the demands of the stronger actor. These processes could take many forms, such as increases in productivity (**productivity improvement**) through the deployment of new technology, the taking on of additional contractual responsibilities, and the lowering of the costs paid by the weaker party for factor inputs. The power imbalance position in the dyad was left unaffected; the weaker party was still vulnerable to the exercise of power of the stronger party in respect of new demands. In a context of monopsony such further demands might eventually involve a supplier giving up some or all of its quasi-rents to the monopsonist.

In a dyad which comprised organizations, i.e. an IOR, rather than individuals, the weaker actor in addition to cost reduction processes may have other means available to it to comply with the stronger actor's demands. For example, where the weaker actor (the supplier) was engaged in other output markets apart from the monopsony, then in such a case the weaker actor might be able to

⁹⁹ Emerson, R, (1962), p. 34.

cross-subsidise its activities in the monopsony even beyond the point where it was forgoing all of its quasi rents in the latter. Thus from the standpoint of the weaker actor, an IOR it had under conditions of monopsony could 'enter a range of instability' and even be 'unstable' in some aspects, but it might still be possible for the weaker actor to mitigate the risks of negative impacts associated with that instability. More generally the weaker actor may also simply **accept an increase in IOR performance risks** such as might arise from changes in the rules of the IOR which the stronger party (the monopsonist) has brought about.

In contrast to compliance processes such as cost reduction and cross-subsidy, '**balancing operations**' were processes which aimed at changing the structure of power-dependence relations in the dyad. Emerson identified four generic types of balancing operation that could be conducted by the weaker actor in a dyad: (i) withdrawal from the dyad; in a monopsony context this would mean the weaker actor (a supplier) exiting from the monopsony (ii) giving other rewards particularly status, that would increase the 'motivational investment' of the stronger actor in the dyad (iii) **extension of the power network**, i.e. adding other parties to the power-dependence relationship; in a monopsony context this would mean that the exchange relations between the monopsonist and its suppliers would no longer just be a set of individual separate exchanges with each seller but would also be open to the influence of other parties. Specific examples of this would be where negotiations at a local dyad level were superseded by negotiations at a higher (e.g. national) level where actors outside of the dyad were involved, or where the **supplier lobbied** political actors associated with the monopsony but not directly a part of the dyad, to use their power over the monopsonist (iv) **coalition formation**; in a monopsony context this would mean the suppliers no longer acted independently of each other but acted in concert.¹⁰⁰

However, from the standpoint of the weaker actor in a dyad under conditions of monopsony, the latter might function mostly to inhibit the restructuring of the power-dependence relations. Firstly, with regard to 'withdrawal' and 'giving other rewards', monopsony as defined by its underlying conditions (outlined earlier) largely assumes the practical unavailability, on economic grounds, to a supplier of these types of balancing operations. Secondly, with regard to the third and fourth types of balancing operations, 'extension of the power network' and 'coalition formation': these operations imply a kind of coordination between suppliers which is unusual where such suppliers might be in competition with each other not only in the monopsony but in other output markets as well. Furthermore, to the extent that problems associated with the initiation and undertaking of collective action and the sustaining of that action (referred to earlier in relation to utilitarian explanations of institutional change) were relevant then these balancing operations might not take place or at least tend to be relatively limited in their scope and/or duration.

2.5.3 IOR stability over time in – monopsonist's standpoint

The options open to the monopsonist as the stronger actor in regard to cost reduction processes and to compliance processes more generally include **changes in its demand for outputs** (quantity, quality and compliance requirements), **increasing surveillance of compliance** ('monitoring creep'), the **transfer of specific IOR performance risks** to the weaker actor, and/or the **extraction of rents including quasi-rents**, for example through offering 'all or nothing contracts' to the weaker actor.¹⁰¹ The key issue for the monopsonist is whether to exercise its monopsony power and if so to what extent. Once that power is exercised and compliance of the weaker actor has been secured then the structure of power-dependence relations remains unaltered and the issue for the monopsonist,

¹⁰⁰ Emerson, R. (1962), pp 35 – 40.

¹⁰¹ Stucke, M. (2013), pp 9 – 10.

whether or not to exercise its monopsony power in regard to new demands comes to the fore again. In effect, so long as compliance with its demands by the weaker actor continues to be secured, the issue for the monopsonist remains the same.

The position of the monopsonist in regard to balancing operations is different.¹⁰² Here the objective of the monopsonist might be to maintain or even to increase the imbalance of power-dependence relations in the IOR; in such a scenario, '**unbalancing processes**' might be initiated by the monopsonist either in response to the 'balancing processes' initiated by the supplier or as part of a continuing endeavour further to improve its relative power position in the dyad. The 'unbalancing processes' potentially available to the monopsonist include some of the same type of politicking processes which were noted above as potentially available to the supplier, in particular the extension of the power network for example in politicking and lobbying at a higher national level. They also potentially include the **exploitation of ambiguity and the use of discretion or veto** available to the dominant actor in the **interpretation and application of existing rules** of the IOR; the GM could also **introduce new rules into the IOR or change the existing rules**. As argued by Mahoney and Thelen (2010) the latter processes might be more readily available to the 'dominant actor' (in this instance the monopsonist) rather than to the weaker actor in a dyad.

2.5.4 Characteristics of government monopsony (M_G)

In most respects a government monopsony (M_G) is similar to other monopsonies: the underlying conditions of monopsony apply just as much to a M_G as to any other kind of monopsony. Thus a government monopsonist (GM) like other monopsonists has monopsony power and the implications for IOR stability over time in M_G should be expected to be similar to other monopsonies. However M_G is different from other monopsonies in one respect: the standing of a M_G as a monopsony is protected by statute or government regulation. This protection provides a GM with a further degree of freedom in its actions: a GM does not have to be as concerned about its behaviour being deemed anti-competitive in terms of its impact either on its suppliers or on prospective competitive buyers (since market entry of the latter is barred).

Potentially, some M_G s can also be different from other monopsonies in the extent to which other characteristics listed below might apply to them:¹⁰³

- I. Some M_G operate as '**quasi-markets**'. Quasi-markets '*are similar to pure markets in that the provision of a service is undertaken by competitive providers*'¹⁰⁴ (e.g. by 'non-profit organizations competing for public contracts sometimes in competition with for-profit providers'¹⁰⁵). Quasi-markets have been defined as different from 'conventional' markets in two conditions: (i) '*consumer purchasing power (is) centralised in a single purchasing agency or allocated to users in the form of vouchers rather than cash*'¹⁰⁶ (ii) '*the purchasers of the service are financed from resources provided by the state instead of from their own*

¹⁰² Emerson did not consider the standpoint of the stronger actor in the context of 'balancing operations'.

¹⁰³ All of the characteristics listed here were relevant to the M_G within which the IOR was embedded. It is not being argued here that all of these characteristics were unique to M_G and not relevant to other monopsonies. Monopsonists generally operate in environments which are political, may have objectives which prioritise short-run returns, and have resource allocation processes which are multi-layered and relatively attenuated. Rather, what is being suggested here is that the extent to which these characteristics routinely apply may usually be greater for M_G than for other monopsonies.

¹⁰⁴ Le Grand, J. (2011), p. 80 (emphasis omitted)

¹⁰⁵ Brown, R. with Carasso, H. (2013), p.24

¹⁰⁶ Brown, R. With Carasso, H. (2013), p. 24 citing Le Grand, J. and Bartlett, W. (1993)

resources'.¹⁰⁷ In comparison to M_G as well as to monopsonies generally, it is only in respect of the second condition that quasi-markets are distinctive. In M_G operating as 'quasi-markets', the entire resources of the GM are allocated to it from the resources of the State, often via central government plan and bid processes. The latter means that the environment in which resource allocation to an M_G operating as a quasi-market takes place is predominantly political. Decisions on the allocations of state resources between different areas, such as between NHS, Higher Education, Education, Social Welfare, and Defence might be the outcome of politicking between different government departments. At an overall level such decisions might be sensitive to the perceived political priorities of the time and as such open to a range of politicking, including lobbying activity. Political priorities might also change substantially over the course of a Parliament and be influenced by exogenous factors such as the stage of the electoral cycle.

- II. For M_G where the GM's resources and the resources it allocates are funded from the State on a revenue basis rather than on a capital basis, resource allocations might be made at several levels prior to the resource allocation made to a specific M_G . For example, in respect of the funding for NHS commissioned workforce education there could be five or more prior levels of resource allocation for NHS requirements generally before the resource allocation for NHS education is made. For example, a resource allocation might be made first for the overall NHS planned expenditures for a particular time period. A second level of allocation might then be made to a geographic area (often based on a formula system which itself might be subject to contention). A third level of allocation between NHS service commissioning and NHS workforce education might then be made. Once the allocation to healthcare workforce education had been made further allocations as between medical and non-medical education, and between the existing and the prospective healthcare workforce could take place.

An important implication of such a resource allocation system is that by the time resource allocations are made at the level of a particular M_G , the actual resources allocated to a GM might or might not bear a close relation to the size of those the GM bid for in the first place. This is because the outcomes of the inherently political nature of the resource decision-making process, and the attenuated hierarchy of resource allocation, might have little to do with the technical/rational needs expressed at the relevant M_G level when the GM's resource bids for NHS workforce education were being made. Even after 'final' resource allocations have been made these might not be ring-fenced: virements between different allocation areas might still be made within the relevant time period. This could occur especially at the lower levels of resource allocation.

- III. Revenue resources allocated to the GM for an NHS education M_G are usually for one year only. There is no *automatic* carry forward to future years of allocated revenue resources which remain unspent (although in this inquiry it became the usual practice for unspent resources by the GM to be carried forward). The GM is required by statute to keep within the 'revenue resource limit' (RRL) set for the M_G . In the event that the RRL is exceeded, the GM does not go bust; however sanctions might then be applied to its management and tighter external controls imposed on its operations for future years.

¹⁰⁷ Le Grand, J. (2011), p. 80 citing Le Grand, J. and Bartlett, W. (1993)

2.5.5 Implications for IOR stability over time in of M_G

Like other monopsonists, a GM may exercise its monopsony power in relation to price, output (quantity and specification/quality), contract types and terms, and its choice of suppliers to extract quasi-rents and bring about other transfers of wealth to itself from the exchange relations with its suppliers. In these respects therefore the potential impacts on IOR stability over time under conditions of M_G should be expected to be the same as for IOR in monopsonies generally.

However, to the extent that the protected standing of M_G adds to the monopsony power of a GM, then there may also be a greater potential for the GM to prevail in contests (such as 'balancing operations' or 'unbalancing operations') aimed at altering the structure of power-dependence relations in an IOR or dyad. To the extent that the M_G is also different from other monopsonies in regard to other characteristics then there may be further implications for IOR stability over time under conditions of M_G ; in the following examples a revenue resourced M_G is assumed - the NHS education monopsony.

(i) Impact of M_G characteristics I and II: changes to the structure of power-dependence relations and/or to the stability over time of an IOR under conditions of M_G might only be partly controllable or open to influence by the organizations in the IOR. The inherently political environment of resource allocation to the GM and the attenuated system of revenue resource allocation, might together function to limit severely the extent to which either the GM and/or the supplier in an IOR were able to manage their environments, at least in the short run. Consequently, depending on the size and rapidity of any adverse exogenous shocks, conditions (A), (B), and (D) for the stability over time of IORs under conditions of M_G might no longer hold.

(ii) Impact of M_G characteristics II and III: operations aimed at ensuring the overall stability of an M_G might be time inconsistent with each other. In prioritising a one year time horizon, a GM might bring about short term stability of the M_G but at the cost of longer term instability in its suppliers. For example the GM might establish contracts with its suppliers which enabled the GM within a relatively short period to flex its demand for output. With changes in priorities from one year to the next (perhaps with the extent of change exacerbated by turbulence in the GM's political environment) a boom-bust cycle of output demand might ensue. As a consequence conditions (A), (B), and (D) for the stability of IORs under conditions of M_G might no longer hold.

Power imbalances in a dyad situated in a M_G may also change over time, whether due to exogenous events or due to changes in the individual actors/organizations. Associated with those events or changes, the impact of historical dependence processes or/and the initial conditions of the M_G in which the IOR was situated might also change. As a consequence the stability impacts of an IOR could be affected, whether on particular dimensions or/and on particular components of the IOR or/and at the overall level of the IOR itself.

2.6 Evidence and Gaps in Research into Monopsony and M_G

Evidence: Research into monopsony generally has been focussed mainly either on establishing the existence of monopsony or/and on the consequences at a point in time of the use of monopsony power. Evidence about the use of monopsony power and its consequences mainly comprises the findings of research studies on labour market monopsony. In April 2010 the Journal of Labor Economics devoted a special issue to labour market monopsony. Ashenfelter, Farber and Ransom

(2010) reviewed the published research studies.¹⁰⁸ They concluded that the research provided substantial evidence of the existence of monopsony and the 'exploitative'¹⁰⁹ use of monopsony power. Estimates were made of the elasticity of supply of labour in a wide variety of jobs and employers,¹¹⁰ in a specific market¹¹¹ and for a specific employer¹¹². The estimates made were in the range of 1.5 to 4. Ashenfelter et al (2010) concluded that '*these estimates were all quite small, suggesting significant levels of market power for employers*'.¹¹³

Two further research studies into labour market monopsony where the monopsonist was a government employer (or 'GM' for 'government monopsonist') both showed high levels of monopsony power so that *if* the GMs had exploited their monopsony power, the mark downs on wage rates would have been c. 65%, and more, of the employees 'marginal value'.¹¹⁴

While the evidence about monopsony power is scarce, it is consistent in confirming (i) under conditions of monopsony there was a significant imbalance of power, in favour of the buyer, between buyer and sellers (ii) where monopsony power was exercised there were significant consequences to the advantage of the monopsonist and to the disadvantage of the suppliers.

However, at present there are no explanatory theories about, nor is there any evidence concerning, the stability over time either of monopsony generally, or of M_G , or of IOR under conditions of M_G . In regard to research into M_G , beyond statements that M_G enjoy government protection, in general there has been little consideration of the differences between M_G and other monopsonies and what impacts such differences might have on the dynamics of exchange relations in M_G and consequently on M_G outcomes and stability over time. Although the distinctive nature of M_G compared with other types of market monopsony has been noted in the literature, there have been no published substantive research studies about the stability over time of M_G . The research that has been conducted has been a-theoretical, consisting mostly in practitioner surveys of the perceptions of those in the M_G at a particular point of time.¹¹⁵ No research whatever has been published which examined the outcomes of IOR under conditions of M_G on a longitudinal basis.

Consequently, current policy aimed at the stability over time of IOR under conditions of M_G has tended to be empirical and reactive.

¹⁰⁸ Ashenfelter, O., Farber, H., and Ransom, M. (2010) '*Labor Market Monopsony*', in Journal of Labor Economics, Volume 28, pp 203-210

¹⁰⁹ 'Exploitative' and 'exploitation' are words commonly used in the monopsony literature to denote price/wage and/or output levels that were below those that would have been expected under competitive conditions.

¹¹⁰ Hirsch, B., Schank, T., and Schnabel, C. (2010), '*Differences in labor supply to monopsonistic firms and the gender pay gap: An empirical analysis using linked employer-employee data from Germany*'. Journal of Labor Economics, Volume 28, pp 291-330

¹¹¹ Ransom, M. and Sims, D. (2010), '*Estimating the firm's labor supply curve in a "new monopsony" framework: Schoolteachers in Missouri*'. Journal of Labor Economics, Volume 28, pp 331-355

¹¹² Ransom, R. and Oaxaca, R. (2010), '*New market power models and sex differences in pay*' Journal of Labor Economics, Volume 28, pp 267-289

¹¹³ Ashenfelter et al (2010) *ibid* p.207.

¹¹⁴ Ashenfelter et al (2010) *ibid* p. 208; the two research studies were: Falch, T. (2010) '*The elasticity of labor supply at the establishment level*' in Journal of Labor Economics, Volume 28, pp 237-266; Staiger, D., Spetz, J., and Phibbs, C. (2010), '*Is there monopsony in the labor market?*' Journal of Labor Economics, Volume 28, pp 211-236

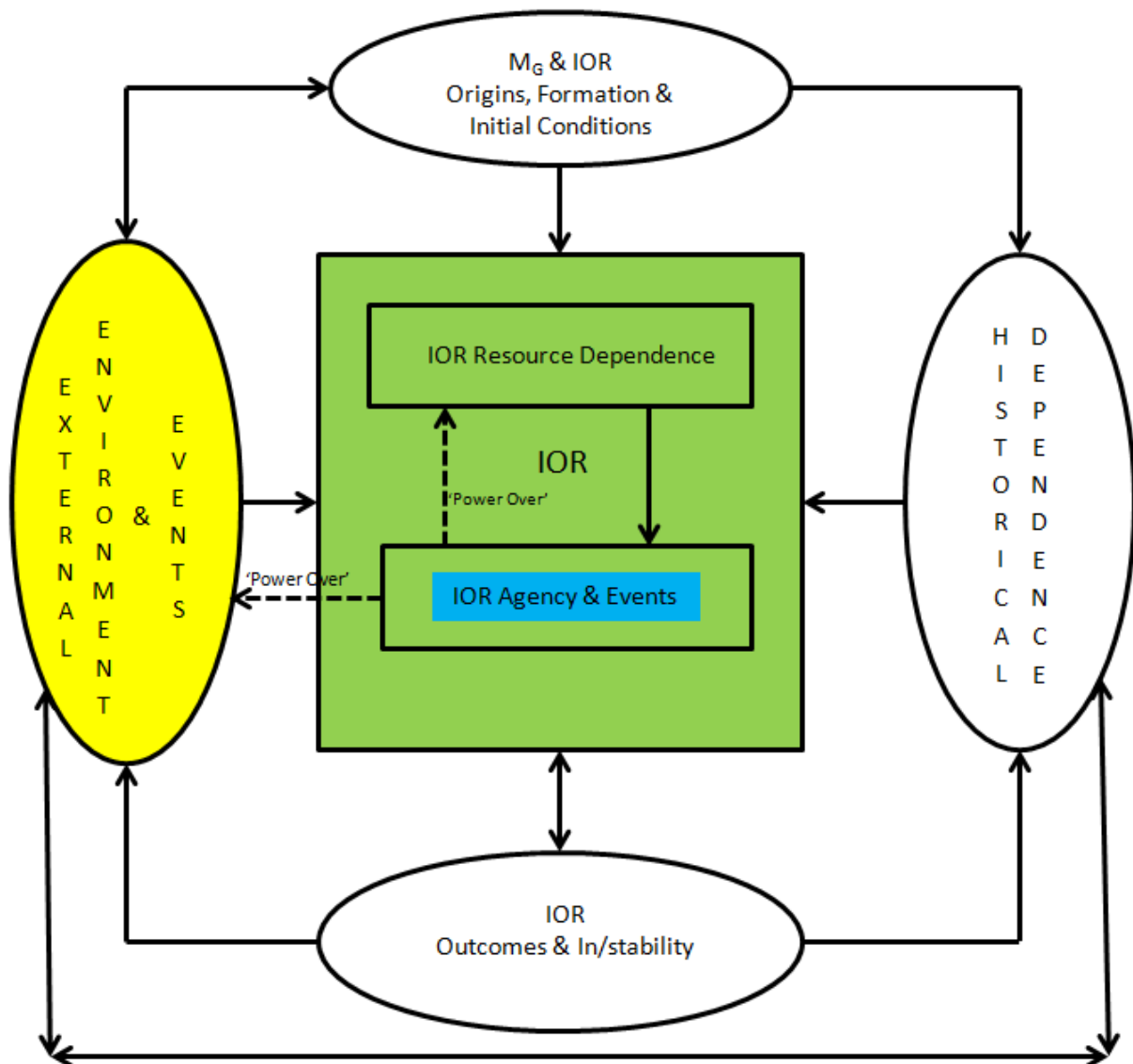
¹¹⁵ An example of such a survey was Snowden, A. (2008) '*UK NHS-University Relations*', unpublished UKHEAC/HEFCE report - Archive 62.

2.7 A Theoretical Framework

It has been argued in this Chapter that within an overall HI approach a range of compatible concepts and theories can be used in conjunction with each other to develop valid understandings and explanations about IOR stability over time under conditions of M_G . These concepts and theories were in three interacting clusters: (i) Concepts and types of historical dependence. Building on an historical account of the origins of the particular institutional context of the IOR being investigated, these concepts included the initial conditions of the IOR. (ii) Power perspectives on inter-agent dynamics in IOR. Resource dependence theory was the specific power perspective adopted in this inquiry. (iii) Institutional perspectives on IOR dynamics and outcomes. The focal institution in this inquiry was an IOR under conditions of M_G . The M_G itself was an institution (or 'institutional arrangement') and constituted a key part of the environment of the IOR. The environment of the IOR also consisted of the organizations in the IOR and the sector environments of those organizations.

Although all of these concepts and perspectives have been argued to be compatible, the issue arises as to how exactly they can be used effectively and coherently together. A high level theoretical framework was developed to address this issue. The framework shown below (Figure 2) brought together the empirical phenomena to be explained in the inquiry (IOR outcomes and consequences for IOR in/stability) and the theories and concepts used to explain those phenomena (resource dependence and historical dependence).

Figure 2 Theoretical Framework for Explanation of NHS – HE IOR In/stability



In figure 2 above:

- **M_G and IOR Origins, Formation: and Initial Conditions** this included the historical events and processes leading to the establishing of the M_G and subsequently of the IOR.
- **IOR:** this included the components of Agency as defined earlier, viz. the **IOR**, the **Resource Dependence relations between the IOR Agents, IOR Agency and IOR Events**.
- **External Environment and Events:** this included all of the constituents of, and relevant events in the institutional environment as defined earlier, viz. the macro institutional environment, the NHS and HE inter-sector institutional arrangements (including the M_G once that was formed), and organizations, including the organizations in the IOR.
- **IOR Outcomes and In/stability:** this included the IOR key outcomes and consequences for in/stability of the IOR.
- **Historical Dependence:** this included the various forms and types of historical dependence which over time shaped IOR agency and also agency in the macro-institutional environment of the IOR, including agency in the M_G.

The dynamics between the component parts of the framework are shown by line arrows, these indicating directions of ‘influence’, ‘shaping’, or ‘determination’:

The **M_G** originated out of, and was **formed** as a result of, a confluence of **events** and macro policy developments in the **external environment** (the NHS sector, the HE sector, and the macro institutional environment). Subsequently, the **IOR** (between the GM and MU) also **originated** from events in the **external environment** – mainly in the respective NHS education buyer and university organizations. The **formation** of the **IOR** was the outcome of negotiations between the GM and MU and in which the **resource dependence** relations between those organizations were an influential factor. The relations of resource dependence between organizations in an IOR can be substantially different before an IOR is established between them compared with after that event, for example where the commitments made by one organization as a consequence of entering into the IOR were relatively more substantial than the commitments made by the other organization.

Once the **M_G** and IOR were established, **IOR Resource Dependence** became one of the key factors in influencing, shaping, or determining **IOR Agency, Events, Outcomes** and **In/stability**; other key factors shown in figure 2 were (i) forms and processes of **Historical Dependence** which initially might arise from the IOR and also be rooted in its **Initial Conditions** particularly as shaped by the **M_G**, and which functioned to influence and shape the choices available to **IOR Agency** at all levels of the IOR (dimensions, components, and overall) and (ii) the **External Environment**, particularly the **M_G**, which functioned to shape and partly determine power imbalances in **IOR Resource Dependence**. **Events** in the external environment, particularly where these occasioned ‘critical junctures’ in NHS – HE inter-sector policy formulation, could also be a key factor over time in changing the effect on IOR stability impacts of the **Initial Conditions** shaped by the **M_G** and/or changes to the types, forms and stability impacts of **Historical Dependence** processes on the IOR dimensions, components and overall. **Historical Dependence** processes were also potentially relevant to the **M_G** and to **Events** in the **External Environment** including **Events** in the **M_G**; hence the line arrows between **Historical Dependence** and the **External Environment** and **Events** are shown as two-way.

The ‘**Power Over**’ dotted line arrows indicate where either or both of the IOR agents had the ability to accommodate to the demands of each other and/or to influence or change the structure of power dependence relations between them. For example, the dotted line arrow from the IOR to the **External Environment** indicates where either of the organizations in the IOR might undertake ‘balancing operations’ or even ‘unbalancing operations’.¹¹⁶

While mainly a dependent factor, **IOR Outcomes and in/stability** over time might also impact recursively as an influencing factor: this is shown in figure 2 as line arrows of feedback to the **IOR**, to the **External Environment** and to **Historical Dependence**.

¹¹⁶ This refers to Emerson’s concept of ‘balancing operations’; see Emerson (1962) pp 34 – 38.

3.0 Overview

Methodology was defined to include: (i) the questions of the research inquiry (ii) strategy of the research inquiry: design; method of inquiry; boundaries (reference time period and institutional environments) of the inquiry (iii) the procedures and frameworks used in developing answers to the overall questions, and included the development of descriptions, findings, analysis, interpretations and explanations (iv) validity: the mitigation of potentially important threats to the validity of the outputs of the research.

3.1 Overall Questions of the Research Inquiry

Five questions for the research inquiry were defined. The first three of these questions were designed to obtain information which would assist the development of answers to the fourth question which was also the overall question relating to the first aim of the research inquiry:¹¹⁷ The objective of the fifth research question was to develop a critique of policy in 'new public management' and to make recommendations relating to the second aim of the inquiry.

1(i) What were the origins and initial conditions of the NHS-HE inter-sector institutional arrangements and of the IOR? (ii) What were the conditions of these arrangements over the reference period?

2. What were the IOR key outcomes and consequences for IOR in/stability over time in each of the main components of the IOR, viz. contracts, outputs, price and performance?

3. How did in/stability over time in the IOR come about?

Specifically, how were IOR relevant events, both exogenous and endogenous to the IOR responded to by the organizations in the IOR and what were the impacts of the responses to these events on in/stability over time in the IOR?

4. Why did in/stability over time in the IOR come about?

5. How should conflict in principal-agent relationships, such as might occur in long term contract-based IORs, be managed so that sustainable stable outcomes from the standpoints of all relevant stakeholders are brought about?

3.2 Strategy of the Research Inquiry

3.2.1 Design

A qualitative design was used for the research inquiry because:

- The inquiry was exploratory: the development of explanatory theory about the outcomes of an area not previously researched – IOR under conditions of M_G - was one of the main aims of the research

¹¹⁷ Taken together as a set, these questions picked up on all of the conditions for IOR stability which were defined in Chapter 2.

- New concepts were being used (e.g. 'IOR stability over time')
- The nature of the reality being investigated was complex, and consequently it was expected that 'thick' descriptions of that reality would be an essential prerequisite to the development of valid explanations of that reality.

3.2.2 Focus and Method

The empirical part of the inquiry was focussed on the history of the IOR between a GM - the NHS Education Commissioner - and one of its suppliers, Middlesex University (MU). The reasons for this focus were:

- A focus on a single IOR enabled an in-depth inquiry to be made which would help in the development of valid explanations of the behaviour and outcomes of IOR under conditions of M_G .
- The writer was a senior manager in the supplier, with responsibility for its IOR with the GM for 9 years of the 18 years span of the inquiry. During this time the writer acquired a deep insight into the phenomena to be investigated. The writer's position also provided a unique opportunity for access to a rich fund of data about the IOR and its environment.
- There was a potential relevance to policy formulation aimed at the stability over time of IORs in NHS-HS inter-sector arrangements. The selected IOR had several characteristics which were the same as other IORs in the M_G , particularly over the period 2008-2013. These characteristics included: (i) the extent of suppliers' relative involvement in the M_G (none had a market share of the M_G which was greater than 20%) (ii) the contracts each supplier had with the GM - these were similar in most respects over the period 1996-2004 and from 2008 were *precisely* the same (iii) the overall financial significance to each supplier of their contracts with the GM (in terms of the relative share of their overall recurrent income from teaching accounted for by their NHS contracts none had a relative share of less than 5%) (iv) education pre-registration curricula and their delivery were prescribed in great detail by the professional body regulator (the UKCC and its successor body the NMC) such that both the nature of the education outputs as well as the production technologies used by suppliers in the M_G were similar (v) the academic labour resource markets below professorial level available to the suppliers were the same; grading structures used for academic posts were largely similar and the unit costs of such resources were mostly governed by national agreements to which the suppliers were party. Given these shared characteristics it was expected, even if the in/stability outcomes were different between different IORs in the M_G , that the dynamics between the GM and MU would be similar to the dynamics between the GM and other suppliers in the M_G .

A diachronic case *history*¹¹⁸ was used as the overall method for the inquiry because:

- The inquiry was into the history of an IOR covering a relatively long time span (18 years).

¹¹⁸ Adapting the definition given by Yin (2009) of a case *study*, a case *history* is defined here as 'an empirical inquiry that investigates a *historical* phenomenon in depth and within its context especially when the boundaries between phenomenon and context are not always evident'. Yin, R. (2009) 'Case Study Research' 4th edition, p. 18, Sage publications, Thousand Oaks, California. In contrast, a case *study* is an investigation into a *contemporary* phenomenon.

- ii. In line with the HI approach adopted for the research it was expected that the sequence in which events and outcomes took place could be important; it was assumed in the interaction of institutions and agency that history mattered.

3.2.3 Boundaries of the Case History

Reference Period: The reference period of the case history was over 18 years, from around the end of 1994 when the IOR was initiated, to March 2013, at which time substantial changes to the health sector environment of the IOR were being implemented, including changes to the identity and scope of the GM IOR agent. (ii) In line with the adopted HI approach, the origins of the M_G and of the IOR were traced and this meant taking into consideration events prior to the reference period and how these events might have shaped the initial conditions of the M_G and their subsequent development.

The IOR and its Institutional Environment: The organizational agents of the IOR investigated, the GM and MU, were respectively part of organizations in the health and higher education sectors. The 'product' outputs of the IOR concerned education related to healthcare occupational groups. These sector, organization, and occupational environments were potentially relevant to the dynamics of the IOR. They were also relevant to the origins and development of the M_G and of the IOR. Consequently, each of these environments (health sector, higher education sector, occupational) as well as the IOR itself was included in the scope of the inquiry.

3.3 Procedure

The procedure used to answer the overall questions of the research inquiry was inductive and iterative. The procedure was in five parts split according to the nature of the overall questions to which answers were sought in the inquiry:

- Part One related to the '*what*' questions, specifically inquiry overall questions 1, and 2 and consisted in the development of descriptions, findings and analysis of IOR stability.
- Parts Two and Three related to the '*how*' questions, specifically inquiry overall question 3. Part Two consisted in using a conceptual framework of NHS-HE IOR for the development of interpretations of the outputs of Part One. The conceptual framework was directly based on the theoretical framework defined in Chapter 2 and consisted in an unpacking of that framework.
- Part Four related to the '*why*' questions, specifically inquiry overall question 4. Part Four consisted in using the theoretical framework of IOR defined in Chapter 2 for the development of explanations of the outputs of Parts One, Two and Three.
- Part Five related to the inquiry overall question 5. Part Five consisted in the development of a critique of M_G based on the findings about in/stability in the IOR over the reference period. Taking account of that critique and the issues identified recommendations for policy and management were developed.

3.3.1 Part One: Development of Descriptions, Findings and Analysis

3.3.1.1 Descriptions

Data Types and Coverage: the database constructed in the research inquiry consisted of secondary data obtained mainly from historical archives. These data included email communications between

the GM and MU;¹¹⁹ IOR contracts, commissioning/purchasing, and contracts performance review documents; IOR student numbers data; communications between the GM and suppliers generally in the M_G – the latter included GM consultation, planning and policy documents; internal MU email communications, strategic and financial reviews concerning the IOR. Archival data also included GM parent organization commissioned reports into pricing in the M_G; GM and MU organization level data, including board reports and financial reports; and communications, reports, and minutes of meetings of higher education lobby groups dealing with health workforce education.

Some of the historical archive data relating to the GM and MU were publicly available data, these data including annual reports and accounts, and strategic plans. Other publicly available historical archive data related mainly to sector level data for the health and higher education sectors. These data included sector level financial data, workforce and student number statistics, ad hoc sector level reports including reports to Parliamentary Select Committees and records of relevant debates in the Houses of Parliament. Secondary data also included data relating to the relevant professional and regulatory bodies for the health and higher education sectors.

IOR Typology: In their review of the IOR literature Hibbert, Huxham and Smith Ring (2008) noted that typologies of IOE (IOR) were particularly common. However, they concluded *‘there is ... no consensus in the literature about the nature of the items included in these typologies, nor about the labels used to describe them’*.¹²⁰ One reason for this may be because IORs can be of many different types, ranging from equity joint ventures where the engagement between the organizations in the IOR may be high, to *‘unilateral contract-based’* IORs where the engagement between the organizations in the IOR is relatively light.¹²¹ Daz and Teng (2000) suggest as an example of the latter an IOR which is based on an *‘exchange of property rights’* between the organizations in the IOR, such as the exchange of *‘money for a patent’*.¹²² Contract-based IORs can also take on many forms such as *‘...long-term supply contracts, licensing contracts, franchising contracts, distribution contracts’*.¹²³

For this inquiry, a typology of the IOR was constructed based on transaction cost theory (TCT) and the type of the IOR which was the subject of the inquiry. In TCT an IOR has been defined by Hennart (2008) as an institution which functions as the mechanism governing economic exchanges within the IOR: *‘The TCT literature has looked at IORs as governance mechanisms, i.e. as institutions charged with generating rents from interdependencies ... between organizations.’* Hennart defined an *‘institution’*: *‘By institution I mean the specific set of rules, formal and informal, that define the way these three tasks are achieved.’*¹²⁴ In TCT the principal components of *‘economic exchanges’* were output and price.¹²⁵ Hennart went on to state that IORs could be of many different types including a variety of contract-based IORs.

The IOR between MU and the GM was a *‘unilateral contract-based’* IOR in which successive contracts were mostly of a 3-5 year duration; the primary resources of MU and GM in the IOR were *‘property-*

¹¹⁹ Source: MU NHS Email Communications 2004/05 to 2012/13 – Archive 150

¹²⁰ Hibbert, Huxham, and Smith Ring (2008), p. 398. IORs of different types could also lead to differences in relationship typologies: for example, Hardy, Phillips and Lawrence (2003) in constructing their typology of IOR collaboration excluded IORs where *‘cooperation is ... purchased, as in a firm’s supplier relationships’*.

¹²¹ Daz and Teng (2000, p.47) note that the distinctive characteristic of *‘unilateral contract-based alliances’* is *‘a comparatively light engagement of the partners’*.

¹²² Daz and Teng (2000, p. 47)

¹²³ Hennart, J. (2008), pp 339-340

¹²⁴ Hennart, J. (2008), p. 339. The three tasks referred to included *‘informing parties of their capabilities and needs, reducing bargaining, and enforcing the bargains reached.’* The purpose of these tasks referred to was the generation of rents from the IOR.

¹²⁵ Hennart, J. (2008); Williamson, O. (1975)

based' and the economic exchange between them consisted in a 'contract price' or 'price' paid by the GM to MU in exchange for education outputs of a specified quantity and quality.¹²⁶ Given this, the typology of the IOR in this inquiry was defined to comprise three components: **contract**, **output** and **price**. The **contract** was the mechanism governing the relations of economic exchange between the GM and MU. The contract specified the obligations of each of the organizations under the contract, including contract compliance and management (e.g. information provision and contract management and review). The two principal components of the economic exchange between the GM and MU were **output** (comprising mainly product type/quality and quantity) and **price**.

Data Categorisation, Data Selection and Data Reduction: Data items¹²⁷ were categorised in a framework based on the IOR typology, viz. 'contracts', 'outputs' and 'price' each of which formed a principal category of data. A further category, 'context', was created within which data relating to the environment of the IOR were placed. In the course of the categorisation process, sub-categories were created of each of these four overall categories. Sub-categories related to specific topics or projects e.g. 'London Education Contract 2008', 'Output Based Commissioning', 'Benchmark Price Implementation 2007', '2006/07 Commissions', 'QCMP (Quality and Contract Performance Management) 2012/13'. Data were selected on the basis of their potential relevance to the 14 dimensions of the 'IOR key outcomes and performance' that were defined (see next sub-section – 'Findings'). A process of data reduction also took place. If a data item was considered to be of little potential relevance then it was categorised into a miscellaneous category; at a later stage of the research inquiry these data items were reviewed to see whether any of them should be 'promoted' to one of the categories based on the IOR typology.

Construction of Historical Account: A descriptive history of the IOR and its institutional environments was developed. This was in two parts. The first part concerned the origins of the M_G and of the IOR (research question 1). This was considered in terms of historic events leading to the establishing of the M_G and the IOR covering: (i) NHS (ii) Regulation of a healthcare occupation (nursing) (iii) UK HE and (iv) Middlesex Polytechnic/University and the NHS education purchaser/commissioner.

The second part consisted in a history of the IOR and its institutional environment. For each component of the IOR typology, a summary of events and key outcomes (e.g. changes in output quantities and price) was developed. These summaries were used as the framework for the development of a detailed historical account of the IOR. The historical account was subsequently validated through MU member checks and became a resource for the research inquiry in the subsequent steps of the research procedure.¹²⁸

3.3.1.2 Findings

Key outcomes, and the consequences these had during the reference period for the stability of the IOR within each of the four component parts of the typology, were identified (research questions 2 and 3). There were four steps in this part of the inquiry procedure:

- Defining dimensions of the IOR key outcomes and performance
-
- Operationalisation of the concept of IOR stability

¹²⁶ Supporting evidence for this finding can be found in the actual contracts of the IOR over the reference period. In all of these contracts the claimed relationship between outputs and price was made explicit; so too were the respective responsibilities of the GM and MU for outputs and prices - Archives 32-39.

¹²⁷ A report or an email with an attachment often consisted of more than one data item.

¹²⁸ Walsh (2013) – Archive 85

- Ascertaining the IOR actual key outcomes and performance
- Assessments of the impacts on IOR stability over time
- Analysis of the impacts on IOR stability over time

Defining dimensions of the IOR key outcomes and performance: altogether 14 dimensions were defined. For the components of the IOR typology there were 4 dimensions for contracts, 4 dimensions for outputs, and 4 dimensions for price. A further 2 dimensions were defined for IOR performance, the first of which was from the standpoint of the GM and the professional body regulator, the second from MU's standpoint. Details of the dimensions, the sources of those dimensions and their relationships to IOR stability concepts are given below in Table 1.

Caption to Table 1

- IOR key outcomes and performance defined on 14 dimensions (see columns IOR Key Outcomes Dimensions and Definitions of Dimensions)
- All definitions of dimensions were grounded in the empirical reality of the IOR (see column Sources of Dimensions)
- Dimensions 1-4 related to IOR Contracts
- Dimensions 5-8 related to IOR Outputs
- Dimensions 9-12 related to IOR Price
- Dimensions 13-14 related to IOR performance assessments made by the GM and MU
- The relation to IOR stability of each dimension was defined (see last column)

TABLE 1: IOR Key Outcomes: <i>Dimensions</i> , Definitions & Sources, Relation to IOR Stability			
IOR Key Outcomes <i>Dimensions</i>	Definitions of <i>Dimensions</i>	Sources of <i>Dimensions</i>	Relation to IOR Stability
1 <i>Duration</i>	The IOR contract period	IOR Contracts 1995 to 2013 - Archive 32-39	Security of contract for the IOR participants; perceived risks of IOR future sustainability
2 <i>Termination</i>	Ways in which IOR contract could be ended and rights of IOR parties thereto	IOR Contracts 1995 to 2013 - Archive 32-39	Security of contract for the IOR participants; perceived risks of IOR future sustainability
3 <i>Compliance - Information; Management & Review</i>	Information requirements: frequency, content; Management & Review: content & processes of contract management	IOR Contracts 1995 to 2013 - Archive 32-39	Affects: (i) level of IOR transaction costs and who bears these (ii) effectiveness of contract management (iii) sustainability of IOR performance
4 <i>Placement Responsibilities</i>	Responsibilities of IOR parties for securing, planning, organisation and management of placements	IOR Contracts 1995 to 2013 - Archive 32-39	Affects: (i) degree of fit between IOR participants responsibilities and potential for control of outcomes (ii) output quality (iii) adjustment capability of supply to demand
5 <i>Output Specification</i>	<i>Specification of the education product/service</i>	IOR Contracts 1995 to 2013 - Archive 32-39	Feasibility of output requirements and relevance to end users/markets; output quality; adjustment capability of supply to demand
6 <i>Output Floors and Ceilings</i>	Limits to annual changes (+/- %) to new commissions quantities	IOR Contracts 1995 to 2004 - Archive 4, 32	Adjustment capability of supply to demand; sustainability of financial performance of IOR participants
7 <i>Size of Short Run Variability of Output Quantities</i>	Year on year variations in output quantities by GM	IOR Contract Documentation 1995 to 2013 - Summary Data in Archive 9	Sustainability of IOR participants' financial performance; adjustment capability of supply to demand
8 <i>Trends in GM Demand for Output Quantities</i>	Moving 3 year overall totals of output quantities demanded by GM	IOR Contract Documentation 1995 to 2013 - Summary Data in Archive 9	Sustainability of IOR participants' financial performance; adjustment capability of supply to demand
9 <i>Basis of Price - Innovation</i>	Price includes rewards for product/process innovation and/or compensates supplier for engagement in innovation processes.	IOR Contracts Documentation 2009 to 2012 - Archive 65	Adaptability: (i) of IOR to environmental change affecting output requirements (ii) of supplier to new norms of efficiency.
10 <i>Basis of Price - Full Economic Costs (FEC)</i>	Nature of the price for outputs (contract price, unit price) and the principles on which it was based	IOR Contracts Documentation 1995 to 1999 - Archive 27 'NHS History 4 & 5'; BMP Documentation 2003-2009 - Archive 28-30, 66	Alignment of price with economic value of IOR outputs and/or with supplier FEC levels; Potential for the sustainability and variability of IOR participants' financial performance
11 <i>Basis of Price - OBC Risk</i>	Relative financial risks relating to student attrition borne by the IOR parties	GM & MU OBC presentations (2010); History of OBC negotiations between GM & LDHG - Walsh (2013), Archive 85	Sustainability of IOR participants' financial performance; IOR performance on outputs quality and quantity
12 <i>Actual Price v Supplier's Actual/Planned Full Economic Costs (FEC)</i>	Actual prices paid for outputs relative to supplier's actual/planned FEC	IOR Contracts Documentation 1995 to 1999 - Archive 27 'NHS History 4 & 5'; MU NHS Contract Reviews - Archive 19-22	Sustainability of: IOR participants' financial performance; IOR performance on outputs quality. Continuity and quality of the IOR suppliers' resource inputs
13 <i>Performance (i)</i>	IOR performance assessments on criteria used by NHS Commissioner and external regulators	GM IOR performance assessments; assessments of output quality by external regulators - Archive 13-15	Perceived adequacy of IOR historic and current performance
14 <i>Performance (ii)</i>	IOR performance assessments on criteria used by supplier	MU assessments of historic and current IOR performance - Archive 19-25	Perceived adequacy of IOR historic and current performance

The sources of the IOR dimensions set out in Table 1 above were 'grounded in' the empirical reality of the IOR. Three primary sources were the 'heads of terms' of the IOR contracts, in particular the IOR contracts for pre-registration education provision in 2000, 2008 and 2012; the actual heads of terms for each of these contracts respectively are shown below as Exhibits 1, 2, and 3.

Exhibit 1: Heads of Terms for IOR Contract 2000/01 – 2004/05

Table of contents	
Clause heading and number	Page number
1. TERM	1
2. OBJECTIVES OF THE AGREEMENT.....	2
3. SERVICES TO BE PROVIDED	2
4. RENEWAL REVIEWS AND STUDENT MEMBERS.....	4
5. CONTRACT PRICE/PAYMENT TERMS	6
6. EQUAL OPPORTUNITIES ETC	9
7. QUALITY	9
8. INFORMATION TO BE SUPPLIED	10
9. VARIATIONS TO THE AGREEMENT	11
10. DISPUTES AND ARBITRATION	11
11. ACCESS FOR INSPECTION.....	11
12. INSURANCE AND LIABILITY	11
13. EQUIPMENT AND LIBRARY AND INFORMATION SERVICES	13
14. EMPLOYEES	13
15. PROVISION OF TEACHING ACCOMMODATION.....	13
16. TERMINATION PROVISIONS	15
17. ASSIGNMENT AND SUB-CONTRACTING.....	16
18. HEAD NOTES CLAUSES AND APPENDICES	16
19. WARRANTY AS TO CAPACITY	16
20. FORCE MAJEURE.....	16
21. NOTICES	16
22. ENFORCEABILITY AND SEVERANCE	17
23. JURISDICTION	17
SIGNATURE PAGE.....	18

Source: MU IOR Contract Documentation – Archive 32

Exhibit 2: Heads of Terms for IOR Contract 2008/09 – 2012/13

TERMS AND CONDITIONS OF AGREEMENT

1. Definition and Interpretation	7
2. Agreement Duration	10
3. Agreement Review	11
4. Entire Agreement	12
5. The Services	12
6. Recruitment and Selection	12
7. Unlawful Discrimination	13
8. Student Screening and Clearance	14
9. Premises	14
10. Practice Placements	14
11. Quality Assurance and Contract Management	15
12. Review	15
13. Supply of Information	16
14. Price	17
15. Tuition Fees	17
16. VAT	17
17. Liability and Insurance	17
18. Variation	19
19. Assignment and Sub-Contracting	19
20. Termination	19
21. Consequences of Termination	21
22. Dispute and Arbitration	23
23. Confidential Information	24
24. Data Protection	24
25. Contracts (Rights of Third Parties) Act 1999	24
26. Human Rights Act 1998	24
27. Intellectual Property	24
28. Law and Jurisdiction	25
39. Partnering	25
30. No Agency	25

Source: MU IOR Contract Documentation – Archive 37

Exhibit 3: Heads of Terms for IOR Contract 2012/13 – 2014/15

TERMS AND CONDITIONS OF AGREEMENT	6
1 Definitions and Interpretation	6
2 Agreement Duration	10
3 Entire Agreement	11
4 The Services	11
5 Education Provider Warranties	12
6 Recruitment and Selection	12
7 Unlawful Discrimination	13
8 Student Screening and Clearance	13
9 Premises	14
10 Practice Placements	14
11 Contract Performance Management	15
12 Review	15
13 Supply of Information	16
14 Price	17
15 Tuition Fees	17
16 VAT	17
17 Liability, Indemnity and Insurance	18
18 Variation	19
19 Assignment and Sub-Contracting	19
20 Employees transferring to the Education Provider	19
21 Termination	20
22 Consequences of Termination	21
23 Dispute Resolution	22
24 Confidential Information and Freedom of Information	23
25 Data Protection	24
26 Contracts (Rights of Third Parties) Act 1999	25
27 Human Rights Act 1998	25
28 Intellectual Property	25
29 Law and Jurisdiction	26
30 Partnering	26
31 No Agency	26
32 Set Off	26
33 Cumulative Remedies and Waiver	26
34 Enforceability and Severance	26

35	Survival of Obligations	26
36	Notices	27
37	Warranty as to capacity	27
38	The Bribery Act 2010	28
39	Counterparts	28

Source: MU IOR Contract Documentation – Archive 38

On comparing Table 1 with Exhibits 1-3 above it can be seen that the IOR dimensions defined in Table 1 are related to heads of terms in Exhibits 1-3 as follows:

IOR dimension 1: 'Term', 'Duration'

IOR dimension 2: 'Termination', 'Termination Provisions'

IOR dimension 3: 'Information to be supplied', 'Quality Assurance, Contract Management', 'Review'

IOR dimension 4: 'Practice Placements'

IOR dimension 5: 'Services to be provided', 'The Services'. Some of these services were elucidated further in the 2008 and 2012 contracts: 'Recruitment and Selection', 'Student Screening and clearance'

IOR dimension 6: This was included as a sub-clause clause in the 2000 contract under 'Renewal Reviews and Student Members' – see Exhibit 4 below. Given its potential significance this was defined as a separate dimension of the IOR.

Exhibit 4: Floors and Ceilings to GM Annual Demand for Output Quantities

4.3 Subject to clause 2.4 (dealing with student numbers for the period from 1 April 1999 to 31 March 2004) the number of students to be trained will be determined for each year of the Term by the Consortium following consultation and discussion with the University and the HSBs and shall be notified to the University in writing not later than 31 December in the preceding year PROVIDED that the intake of students to be trained shall not be less than the following percentages of the student numbers specified in Parts I and II of Appendix 4; 95% for the second year of the Term 90% for the third year of the Term and where applicable 85% for the fourth year of the Term and 80% for the fifth year of the Term. These lower limits may be altered by agreement between the parties and in particular may be reviewed (in the sole discretion of the Consortium) should the University accept a number of students in excess of the 10% upper limit referred to later in this Clause 4.3 PROVIDED ALWAYS that the University shall be entitled by notice in writing to the Consortium if the University shall not be able to accept all or part of such notified intake of students as shall exceed (by a factor of 10%) the number of set out in Appendix 4.

Source: MU IOR Contract Documentation – Archive 32

IOR dimension 7: This dimension was related to IOR dimension 6 as the actual variation in output quantities from year to year. In regard to output quantities demand, all of the IOR contracts were established as 'call-off' contracts. This meant that new output quantities ('commissions') were notified by the GM on an annual basis. In regard to the contracts heads of terms, the call-off arrangements were included either as part of the 'Renewal Reviews and Student Members' or as part of 'The Services' to be provided.

IOR dimension 8: 'Renewal Reviews and Student Members', 'Services'. This dimension was a quantification of the long-term trends in the GM outputs demands under the contracts' call-off arrangements.

IOR dimension 9: 'Price'. From 2009, this dimension became part of arrangements agreed nationally and understood to be included as part of the price concept in the IOR. These arrangements were made explicit in the 2009 BMP agreement (see also Chapters 5 and 6 below).

IOR dimension 10: 'Price'. The precise definition of 'full economic cost' (FEC) was made explicit in the finance specification part of an invitation to tender issued by the GM in 2011 and which subsequently became part of the 2012 IOR contract (see spreadsheet Exhibit 5 below). In Exhibit 5, FEC was shown as the '*Total Costs for 2012/2013*' and comprised all of the categories and sub-categories of cost shown in the spreadsheet. For the implementation of this definition of FEC and its constituent cost categories shown in exhibit 5, MU under the close direction of the writer, had developed an extensive and systematic management information system. Commencing in 2006 that information system included a staff workload/time based method of allocation of actual (rather than merely 'standard') direct costs to MU teaching and research activities down to individual staff member and programme activity levels by year. Calculations of academic staff direct costs were based on a detailed and formalised system of 'work programmes' and was part of an established management information and control system for academic resources.¹²⁹ This system also included a validated methodology for the allocation of indirect costs at contract, programme and Departmental levels. In 2011 as part of MU's work in preparing its NHS tender for pre-registration provision for adult nursing the system was further developed, again under the writer's close direction, to include the attribution of University level overheads. The latter development was partly based on the HE sector-wide TRAC (Transparent Approach to Costing) methodology which itself had been introduced and developed over the preceding 5 years; the TRAC methodology for allocation of overhead costs was specifically adapted so that any anomalous attributions to the NHS contracts activity of MU were avoided. For example, MU overhead costs relating to overseas activities were excluded from attribution to the NHS contracts; also excluded were attributions of bad debt costs since all tuition fees were duly paid by the GM to MU.

¹²⁹ Workload allocation norms related to teaching, teaching support and administration were formalised by MU School management and were used as a formal system of planning, and control by MU School management of academic resources. Source: MU Academic Work Programme Control System - Archive 149.

Exhibit 5: Definition of Full Economic Cost (FEC)

PROVISION OF PRE-REGISTRATION NURSING EDUCATION & TRAINING						Total Cost of BSc and PG Dip Adult Nursing - Full-time			
Insert maximum, optimum and minimum capacity student numbers - all years						Notes *	Minimum Capacity	Optimum Capacity	Maximum Capacity
Category of Cost						1,2	£	£	£
Academic Staff Pay Costs						3,4,5,12			
Trainers (Grade 6)						6			
Lecturers (Grade 7)						6			
Senior Lecturers (Grade 8)						6			
Principal Lecturers (Grade 9)						6			
Hourly paid lecturers						7			
Joint Appointments (NHS)						8			
Academic Staff Pay On-Costs									
National Insurance (11%)						9			
Academic Pension TPS (12%)						10			
Trainers Pension LGPS (26%)						11			
Academic Management Pay Costs						3,4,5,12			
Senior Managers						6			
Academic Management Pay On-Costs									
National Insurance (11%)						9			
Academic Pension TPS (12%)						10			
Support Staff Pay Costs						3,4,5,12			
Clinical Skills Technician						6			
Student Office						6			
Clinical Placements & Practice Based Learning Unit						6			
Contract Management						6			
General Admin (adult nursing)						6			
Indirect staffing overheads						6			
Support Staff Pay On-Costs									
National Insurance (11%)						9			
Admin Pension LGPS (26%)						11			
Academic Dept Non Staff Costs						3,4,5			
Clinical skills lab consumables						13			
Medical Expenses (occupational health)						13			
Placements system software						13			
i-pads for student placements						13			
Ward and final badges						13			
Stationery and printing						13			
Staff travel						13			
Training courses & conferences						14			
Indirect school overheads (non-pay)						13			
Recurrent Investment (teaching space quality/fit-out e.g. Clinical labs: pedagogical research, student experience initiatives and virtual ward)									
Academic Dept Estates Costs									
Estates @ 12% of direct costs						15			
Central Services Costs									
Marketing & Admissions (£364 per FTE)						15			
Computing & Learning Resources (£1185 per FTE)						15			
Central Services @ 15% of direct costs (incl: Finance, Human Resources, Executive, Sports, Nurseries, CLTE, Student Union, Academic Registry, Research and Knowledge Transfer Office, central expenses - general)						15			
Cost of Capital employed (COCE)									
COCE at 6.425% of Capital Employed						16			
TOTAL COSTS FOR 2012/2013									
State tendered fixed price (2012/2013 prices) per trainee within the package stated above									

Source: MU IOR Contract Documentation – Archive 38

IOR dimension 11: 'Price'. OBC was explicitly included as a sub-clause in the 2012 IOR contract under 'Price'.

IOR dimension 12: 'Price'. This dimension was a quantification of the actual FEC of the IOR from MU's standpoint.

IOR dimension 13: This dimension represented the range of the GM's requirements of MU set out in the IOR contracts and included 'Services to be provided', 'The Services', 'Quality assurance', 'Information Requirements' and others.

IOR dimension 14: This dimension represented the range of MU's requirements of the GM set out in the IOR contracts. These requirements principally included 'price' and within that due payment. Until 2004/05 MU's requirements of the GM under the IOR contracts also included placements supply (IOR dimension 4) and security of outputs quantities demand (IOR dimension 6).

Given all of the above, it can be claimed that this part of the research procedure was informed by 'grounded theory' (GT) approaches (e.g. Glaser, B. G. and Strauss, A. (1967), Strauss, A. and Corbin, J. (1998), Charmaz, K (2006)) and to have satisfied criteria used in GT approaches [e.g. as in Glaser B. G. (1978)] for assessing the rigour and quality of a research inquiry: (i) the fit and relevance of the components of the typology, and the dimensions of those components, to the data of the inquiry was good; no data were discovered for which a modification of the IOR typology and/or to the dimensions which were defined was necessary (ii) the historical account produced which had used the IOR typology as a framework and was used as a key resource for the inquiry, was concluded by those who had participated in 'member checks' to be a valid account of the IOR history.

Operationalisation of the concept of IOR stability: this part of the research procedure concerned measurement: a concept of IOR stability had been defined, and data obtained and information generated which were relevant to the actual stability impacts over time of the IOR; the problem now was how to operationalise the concept 'IOR stability' which would enable coherent and systematic empirically based assessments of 'IOR stability'. This problem was tackled by taking the underlying conditions of the concept of IOR stability that had been defined (see Chapter 2) and considering those in relation to the dimensions of the IOR and the key outcomes and performance on those dimensions that had been identified.

For each of the 14 dimensions of the IOR key outcomes and performance, a stability impact indicator ('the indicator/s') was defined. Each indicator took the form of a specific question which could be answered directly and unambiguously on the basis of relevant empirical evidence. Then, depending on the answer to the question, the IOR on that dimension was assessed to be either stable ('S'), or unstable ('U'), or threatening to enter a range of instability ('TRI'). This three level assessment of stability mapped directly on to the three potential states of in/stability defined in the concept of IOR stability set out in Chapter 2.¹³⁰ Definitions of the stability impact indicators ('the indicators'), classification of indicators by type - whether 'stability risk' or 'stability outcome', the related potential impacts on stability, the underlying assumptions, sources of indicators and indicators measurements, the rationale for each of the indicator measurements, and the relations between indicators and dimensions are summarised in Table 2 below.

Caption to Table 2

- Concept of IOR stability over time operationalised on 14 dimensions. One indicator was used for each dimension (see column 'Stability Impact Indicators').
- Each of the 14 indicators included a risk parameter; four dimensions included an actual performance outcome (see column 'Stability Indicator Type').
- Three categories of stability assessments were used:: stable (S), unstable (U), and threatening to enter a range of instability (TRI) – (see columns headed 'Stability Impact')
- Assumptions underlying the stability indicators were either grounded in, or inferred from, the reality of the IOR (see column 'Underlying Assumptions, Sources of indicators ...')
- Two stability states were possible on each of the dimensions numbered 1-12; three stability states were possible on IOR performance dimensions 13 and 14.
- Each one of the dimensions 1-12 were related to performance dimensions 13 and 14.

¹³⁰.See Chapter 2 for the definition and corollary definitions of IOR stability; thus, here 'stable' corresponded with the definition of IOR stability - definition 1, 'unstable' corresponded with the first corollary definition of IOR stability - definition 2, and 'threatening to enter a range of instability' corresponded with the second corollary definition of IOR stability – definition 3.

Key Outcomes Dimensions	Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	Stability Impact			Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
			S	TRI	U			
1 Duration	What was remaining duration of contract? x years	R	x≥2	x<2	x<2	If x<2: one party has risk of costlier exit from the IOR. IOR 1995-1999 contracts stipulations set as stability baseline - minimum remaining duration was 2 years at time of annual renewal of these contracts.	2 years minimum required by supplier to establish substitute activity to maintain outputs & cover fixed costs.	13; 14
2 Termination	Did parties have equal rights to terminate? Excepting breach, notice needed ≥ 2 years? Y/N	R	Y	N	N	If N: ditto.	Ditto.	13; 14
3 Compliance - Information; Management & Review	Was there Increased/increasing burden of compliance requirements compared with burden at beginning of participation in the IOR? Y/N	R	N	Y	Y	If Y: supplier costs of compliance increase with risk of negative returns from IOR to supplier. IOR 1995-2004 contracts compliance burdens set as stability baseline.	Compliance burdens under 1995-2004 contracts similar to compliance burdens under HEFCE contracts and norms for HE sector.	12; 13; 14
4 Placement Responsibilities	Were responsibilities of parties aligned with their respective abilities to control outcomes? Y/N	R	Y	N	N	If N: consequential risk of negative impact on output quality and/or quantity. Under IOR 1995-2004 contracts buyer and supplier had joint responsibility for placements - these set as stability baseline.	Ratio of academic provision (controlled by supplier) to placement provision (controlled by buyer/employers) for pre-registration education was equal by time and input.	13, 14
5 Output Specification (OS)	Was timescale allowed to implement fundamental change to OS ≥ minimum duration of current education programmes? Y/N	R	Y	N	N	If N: risk that supplier output will fail to satisfy specification or regulatory body requirements. Notice given by NMC for implementation of 2010 Standards set as stability baseline.	Education provision specification was largely controlled by the regulatory body (the UKCC/HMCC).	13; 14
6 Output Floors and Ceilings	Were floors and ceilings to annual output quantities demanded by the buyer stipulated within the contract? Y/N	R	Y	N	N	If N: risk that supplier will be unable to respond effectively to short run changes in buyer demand. IOR 1995-2004 contract stipulations set as stability baseline.	Under IOR contracts buyer notified demand for output quantities on an annual 'call-off' basis. Increases or decreases in demand relative to previous years' demand could if outside of specified limits have been impossible for supplier to meet, either logistically or economically.	12; 13; 14
7 Size of Short Run Variability of Output Quantities	Were annual output quantities demanded by IOR buyer within supplier's stated capability to adjust supply to demand? [Stipulation in IOR 2000 contract (>+/-5%)] of overall output quantities used as proxy.] Y/N	R	Y	N	N	If N: risk that supplier unable to respond effectively to changes in buyer outputs demand. IOR 2000-2004 contract stipulations set as stability baseline.	Ditto.	12; 13; 14
8 Trends in GM Demand for Output Quantities	Was the moving 3 year total of output quantities demand of IOR buyer in decline? Y/N	O, R	N	Y	Y	If Y: risk that total benefits to supplier from IOR reduce due to reduction in buyer demand; risk that some supplier fixed costs no longer covered. Direction of change of 3 year trend in buyer output demand set as stability baseline.	Specialised nature of supplier fixed costs placed limits on their potential deployment to alternative uses.	12; 13; 14
9 Basis of Price - Innovation	Did price allow for supplier costs associated with product or process innovation?	R	Y	N	N	If N: lack of incentives for supplier to innovate increases risk supplier becomes relatively inefficient and/or ceases to respond effectively to changes in buyer requirements or in wider environment. 'Quality Premium' introduced via 2009 BMP agreement set as stability baseline.	Assumed that at least some innovation requirement would exist given continuing change in requirements of non-medical roles associated with changes in technologies of patient care.	12; 13; 14
10 Basis of Price - FEC	Was unit price based on principle that price should be no less than ≈ standard FEC of supply of outputs demanded? Y/N	R	Y	N	N	If N: risk that IOR will become financially unsustainable for the supplier. FEC as defined in IOR 2012 contract set as stability baseline.	Norm for HE sector was that full costs of education providers for teaching programmes would be met e.g. HEFCE remit. Norm was implicit in the original tender round for IORs in the the M ₀ and explicit from 2003 under the BMP concept.	12; 13; 14
11 Basis of Price - OBC Risk	Did/will supplier, without equivalent compensation in price bear more or all of the financial risks relating to student attrition? Y/N	R	N	Y	Y	If Y: IOR supplier bears some/all of the financial risks relating to student attrition without equivalent compensation in price. If N: financial risks relating to student attrition are equally borne by IOR buyer and supplier. OBC (months) as per IOR 1995-2013 contracts & BMP concept 2003-2013 set as stability baseline.	Incidence of attrition believed to be mostly outside of the direct control of both the supplier and the buyer (some evidence to support this assumption). Consequently it was assumed that allocation of financial risks associated with attrition would be equally allocated when price was set on an OBC (months) basis.	12; 13; 14
12 Actual Price v Supplier's FEC	Were actual prices at least equal to supplier's actual or planned FEC? Y/N	O, R	Y	N	N	If N: ceteris paribus, in long run it becomes uneconomic for supplier to continue engagement in the IOR. See dimension 10 above for definition & source of definition.	As for IOR dimension 10.	6-7; 8-11; 14
13 Performance (i)	Were ratings of IOR and supplier performance by IOR buyer and external regulators at 'satisfactory' or better? Y/MR/N	O, R	Y	MR	N	If MR: Mixed ratings e.g. some of IOR buyer and/or regulator requirements not met N: supplier failing to meet IOR buyer and/or regulators' key requirements. Buyer & regulator requirements set as stability baseline.	IOR buyer assessments of IOR performance assumed to indicate stability state of IOR from buyer's standpoint.	1 - 12
14 Performance (ii)	Were ratings of IOR performance by supplier at 'sustainable' or better? Y/MR/N	O, R	Y	MR	N	If MR: Mixed ratings e.g. of quality and financial performance. If N: supplier failing to meet key IOR requirements. Supplier requirements set as stability baseline.	IOR supplier assessments of IOR performance assumed to indicate stability state of IOR from supplier's standpoint.	1 - 13

The indicators in Table 2 above are now reviewed in regard to (i) criteria and rationale used in the development of the indicators and their associated measurements (ii) an argument for a multi-dimensional concept of IOR stability incorporating risk dimensions (iii) the structure and nature of the dimensions, and the relations between dimensions and indicators.

(i) Indicators and Associated Measurements Criteria and Rationale

Each indicator had to satisfy GT criteria of fit and relevance to the empirical reality of the IOR. Specifically, this meant that each indicator had to be grounded in the reality of the IOR dimension to which it related and should be a useful tool for the interrogation of that reality, e.g. the IOR stability states which each indicator denoted should convey something potentially important about IOR stability on the relevant dimension.

The criteria of fit were particularly important in regard to the measures of IOR stability which were used. As stated in Chapter 2 the concept of IOR stability defined in this paper is a normative concept. This potentially becomes an issue when, as in this inquiry, IOR stability was defined as a multi-dimensional concept of the 'sustainable performance' of the IOR from the standpoint of each of the organizations in the IOR – what counted as a 'sustainable performance' and when was an 'unsustainable performance' indicated? To avoid the imposition of a stability concept which was alien to the IOR investigated in this inquiry, the measures of IOR stability used in each dimension were set relative to the first baseline or standard which had been established by the organizations in the IOR in the history of the IOR itself. For example, on IOR dimension 4 (placement responsibilities) the respective responsibilities of the organizations in the IOR under the 1995-2004 contracts were defined. Excepting for dimension 9 the baselines were set relative to the IOR contracts for 1995/96–2004/05; on dimension 9, innovation incentives were not introduced into the IOR until 2009/10.

(ii) Multi-Dimensional Concept of IOR Stability incorporating Risk

A key feature of the approach used in the inquiry was the use of a multi-dimensional concept of IOR stability which incorporated risk. It was assumed in this inquiry that an understanding of in/stability in IOR would benefit from an approach which took account of the potential for different stability states between the individual components of an IOR and their constituent dimensions, to co-exist and to vary over time. This is particularly the case with IOR performance risk: risk can be associated with any of the components of an IOR (price, output, contracts) and the level of risk in each of those components can vary over time. Yet an increase in risk to the future performance of an IOR would not necessarily become apparent if only the historic or current survival of an IOR was considered. Thus the stability of an IOR when only considered on a single dimension such as 'survival' (e.g. Xia 2011) might exhibit 'stability' when at the same time from a future orientated, risk, perspective that IOR might be 'threatening to enter a range of instability'.

(iii) Overview of Dimensions and Indicators and Relations between them

The use of a multi-dimensional concept of IOR stability raises questions regarding the overall structure of the dimensions, the nature of the individual dimensions and their inter-relationships. In Table 2:

Overall Structure of Dimensions

- Dimensions 13 and 14 were dimensions of the IOR historic/current actual performance as well as the perceived likely future performance of the IOR from the standpoints of the organizations in the IOR – dimension 13 from the standpoint of the GM, dimension 14 from the standpoint of MU.
- All of the dimensions in the contracts, outputs and price components of the IOR (dimensions 1-12) and their associated stability indicators were *sub*-dimensions of the IOR performance dimensions (dimensions 13 and 14) and their associated indicators.

Nature of the Dimensions and their Inter-relationships

- Each of the indicators associated with dimensions 1-11 measured specific risks - endogenous to the IOR - to the future performance of the IOR either from the standpoint of the supplier or/and from the standpoint of the buyer. In terms of IOR stability, the worst possible outcome on the indicator for each of those dimensions was 'TRI' - a 'threatening to enter a range of instability' - rather than an outcome where the performance of the IOR had already become impaired and was thus 'unstable'.
- IOR dimensions 8 and 12 were also *sub*-dimensions of the actual/ historic IOR performance dimension 14: the indicators on dimensions 8 and 12 measured outcomes which featured as criteria used by the supplier (MU) in dimension 14 to assess IOR current performance. However, IOR dimensions 8 and 12 were also dimensions of risk in relation to the future performance of the IOR from the supplier's standpoint. For example, an unstable stability impact on dimension 12 meant that there were inadequate resources from the IOR flowing to the supplier to cover the full economic costs of the supplier in producing outputs of the requisite quality.
- There were also relationships between dimensions (3, 6, 7, 8, 9, 10, and 11) and dimension 12. In each of these cases the relationship was also one of risk: the higher costs to the supplier implied by a 'TRI' outcome on dimensions 3, 6, and 7 or the reduced income to the supplier implied by a TRI outcome on any of the dimensions 8-11 meant there was a consequent risk of an unstable outcome on dimension 12.

Ascertaining the IOR actual key stability impacts and performance: using the same sources used for the development of definitions of the IOR dimensions, the actual key stability impacts and performance of the IOR were identified. This information was examined for changes or consistencies in those outcomes and performance from year to year during the reference period. Types of changes/consistencies identified included:

- For dimensions under Contracts: the balance of obligations and risks in the IOR between the GM and MU
- For dimensions under Outputs: trends and the size of the changes in the GM demand for quantities; changes/consistencies to/in the basis on which the GM allocated its demand between suppliers
- For dimensions under Price: changes/consistencies to/in the basis on which price was supposed to be set; changes in the level of actual price relative to the estimated full economic costs (FEC) to MU of its NHS education provision and/or relative to estimated FEC standards at national level.

For IOR Performance: (i) changes/consistencies to/in assessments made by the GM of MU's overall contract performance (ii) changes/consistencies to/in assessments of product quality and quality assurance performance - the conclusions drawn by the regulatory body, the NMC were used as proxy measures for the performance on these dimensions of the IOR (iii) changes in the financial and strategic performance of the IOR from the standpoint of MU. For financial performance, data were available for 1995/96 and from 2005/06 for the level of contribution to MU overheads from the IOR. Also available were data for 1995/96 and for 2012 for NHS contract income to MU relative to the full economic costs of its activities in the M_G. These data were used as proxy measures of the financial performance of the IOR from the standpoint of MU. Other proxy measures of the IOR performance which were used included assessments made by MU in strategic reviews of the IOR in 2006, 2009, and 2012.

Assessments of the impact on IOR stability over time: using the indicators set out above in Table 2, and given the IOR actual key outcomes and performance identified, assessments were then made of the impact on IOR stability over time on each of the dimensions of IOR key outcomes and performance. The impact assessments were summarised below in Table 3(i).

Caption to Table 3(i)

- In the table are shown the stability impact assessments ('S', 'TRI' or 'U') for each of the 14 IOR dimensions for each year of the reference period, 1995-2013.
- Most stability impacts were 'S' for the period 1995-2004 – the first half of the overall reference period.
- Most stability impacts were 'TRI'/'U' for the period 2005-2013 – the second half of the overall reference period (see also summary analysis in Tables 9 and 10).
- For summaries of relevant events, HD process and power dependence responses which brought about these outcomes see Tables 4(i), 4(ii), 11-13, 14(i) – 14(iii) and 15. For detailed analysis of how and why the stability impacts for the period 2008-2013 came about see Tables 16-20.

TABLE 3(i): IOR Stability over Time - Assessments of Impacts on IOR Key Outcomes Dimensions																			
Key: S = Stable; TRI = Threatening entry to range of instability; U = Unstable																			
										Stability Impact over Time									
IOR Key Outcomes: COMPONENTS & Dimensions	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	
CONTRACTS																			
1 Duration	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	S	S	S	TRI	TRI	
2 Termination	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	
3 Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	
4 Placement Responsibilities	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	
OUTPUTS																			
5 Output Specification	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	
6 Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	
7 Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S	S	S	S	S	TRI	S	S	S	
8 Trends in GM Demand for Output Quantities	S	S	S	S	S	S	S	S	TRI	TRI	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	
PRICE																			
9 Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	S	S	S	S	
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	
11 Basis of Price - OBC Risk	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	
12 Actual Price v Supplier's FEC	U	U	U	U	U	U	U	U	U	U	U	U	U	U	?	?	S	S	
PERFORMANCE																			
13 Performance (i)	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	
14 Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	

3.3.1.3 Analysis

The objectives of analysis in this part of the procedure were firstly, to ascertain the incidence over time of in/stability on the IOR dimensions and its principal components and secondly, to identify any patterns to the incidence of in/stability over time. Two tables, Tables 9 and 10 were produced to aid this analysis and these are presented below in Chapter 5.

3.3.2 Procedure Part Two: Development of Interpretations (1)

To aid the development of interpretations of how the IOR key outcomes and in/stability consequences came about (inquiry overall question 3) a conceptual framework (EEAPOC), was developed and is shown below as Figure 3.¹³¹ The EEAPOC framework brought together the main concepts used in the inquiry¹³² and was designed to map some of the key underlying process relationships being assumed in the research, particularly within the environment and agency components as well as between those components.¹³³ The EEAPOC framework was based on the theoretical framework presented in Chapter 2 (Figure 2) and consisted in an unpacking of the environment (yellow), IOR agents (blue), IOR and IOR events (green), and IOR outcomes and in/stability consequences (white) boxes in that framework.

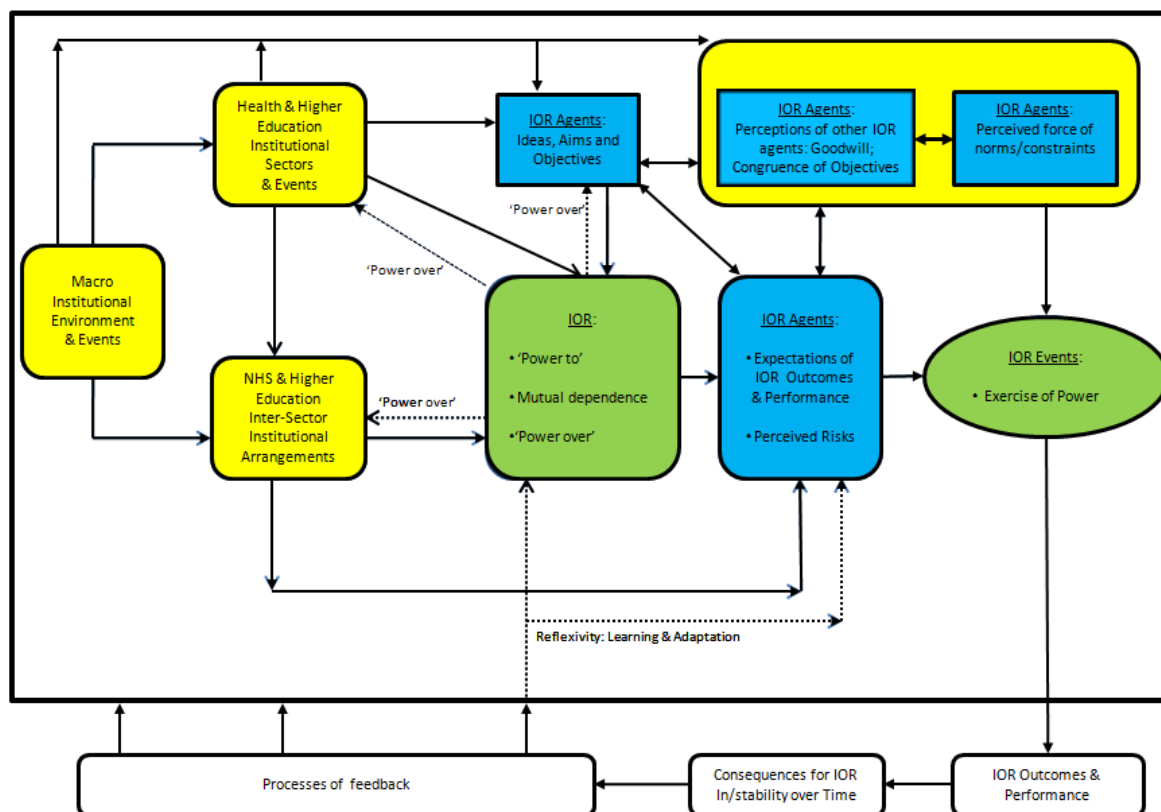
¹³¹ EEAPOC is an acronym of the main constituents of the framework: **E**vents, **E**nvironment, **A**gency, **P**ower, **O**utcomes, and **C**onsequences.

¹³² The main concepts included those defined above as well as those defined in the previous chapter, the latter including: **Monopsony**; **Government monopsony**, **M_G** - in this inquiry the M_G was the NHS healthcare workforce education monopsony; **Government monopsonist**, **GM** - in this inquiry the GM was the NHS healthcare workforce education commissioner/purchaser; **Monopsony power**; **IOR stability**; **IOR instability**; **IOR stability in monopsony and in M_G**; **'Power over'**; **'Power to'**; **Exercise of power**.

¹³³ The framework was developed as a synthesis of two frameworks: (i) a framework for institutional analysis developed by Hollingsworth (2002) and (ii) a framework of IOR agency developed by Walsh (2011).

Thus, in Figure 3 below, the EEAPOC framework comprises three parts: (i) the Institutional Environment of the IOR, represented by the yellow boxes which, following Hollingsworth (2002), separate three different levels of institutional analysis (in this case the macro institutional environment, the sector level institutional environment, and finally the specific institutional arrangements between the sectors – viz. the government monopsony) (ii) IOR Agency, represented by the green and blue boxes which separate the components of IOR agency viz. IOR relations of Power and Mutual Dependence, IOR Agents, and IOR Events (iii) Key Outcomes and In/stability over Time of the IOR represented by the white boxes which separate the IOR key outcomes, the consequences for IOR in/stability over time and the feedback of IOR outcomes and in/stability consequences to the IOR and its institutional environment. Line arrows between the component parts of the framework show directions of ‘influence’, ‘shaping’, or ‘determination’.

Figure 3: Conceptual (EEAPOC) Framework of NHS - HE Inter-organisational Relations (IOR)



In Figure 3:

- **Macro Institutional Environment and Events:** this included institutions and events *at the macro level* of the political, economic, social and technological environment of the health and higher education sectors. ‘Institutions’ at the macro-societal level were defined as ‘*the basic norms, rules, conventions, habits and values of a society*’ (Hollingsworth 2002, North 1990).¹³⁴

¹³⁴ Hollingsworth, J. (2002), p. 5. In this definition a distinction is made between ‘institutions’ and ‘organizations’: ‘organizations’ are not defined as ‘institutions’ and are analysed as constituents of the institutional sectors.

- **Health and Higher Education Institutional Sectors and Events:** this included relevant organizations and events in the health and HE sectors e.g. the organizations in the M_G, the relevant funding, professional and regulatory bodies (such as the Nursing and Midwifery Council, the Higher Education Funding Council of England, the Quality Assurance Agency), and lobbying groups such as the Council of Deans of Health and the London Deans of Health Group). Also included were the relevant healthcare occupations for which education was provided in the M_G.
- **Health and Higher Education Inter-sector Institutional Arrangements:** these were the governance and funding arrangements between the NHS and HE sectors. In this research inquiry these included principally the NHS healthcare workforce education monopsony (the M_G) and also the relevant inter-sector co-ordinating groups (such as the Health Education National Strategic Exchange). They also included the funding models and regulatory frameworks and processes which were relevant to healthcare occupations and healthcare workforce education.
- **IOR Agency:** this comprised (i) the **IOR Agents** (including their ideas, aims and objectives, their perceptions of the other IOR agents, their perceptions of the force of external norms and constraints, and their expectations of IOR outcomes); in this inquiry the IOR agents, as organization level agents (see Chapter 2) were the GM and MU (ii) the **IOR** (which included the formal (contractual) arrangements governing exchange between the IOR agents, and their power-dependence relations with each other) (iii) **IOR Events** (which included the exercise of power by IOR agents).
- **IOR Key Outcomes:** these included the product/service outputs of the IOR, the prices paid for IOR product/service output, and the specific contract mechanisms and contracts in the IOR governing the relations of exchange between the GM and its suppliers
- **IOR Performance:** this was the performance of the IOR from the perspectives of the IOR agents (e.g. in relation to their objectives and expectations) and included measures used by the IOR agents in their evaluations of the IOR and of its performance.
- **Consequences for IOR in/stability over time:** this concerned the impact on the in/stability of the IOR, the IOR components, and the IOR dimensions arising from the IOR key outcomes and performance.

Foucault (1983) argued that ‘it is perfectly legitimate to analyze power relationships by focussing on carefully defined institutions’ However Foucault (1983) also argued against approaches which analyzed those power relationships from the standpoint of the institutions, because (i) there was ‘the risk of deciphering functions which are essentially reproductive, *especially in power relations between institutions*’ (emphasis omitted) and (ii) whatever explanations were developed might only be tautological - ‘one lays oneself open to seeking the explanation of the former (power relations) in the latter’ (the institutions) which, Foucault maintained, would be tautological – ‘explaining power to power’ (Foucault 1983) (iii) although ‘power relationships were embodied and crystallised in an institution ... the fundamental points of anchorage of those relationships were to be found outside of the institution. Instead of analyzing power relationships from the standpoint of the institution, Foucault (1983) suggested the opposite approach be taken viz. that institutions should be analysed from the standpoint of power relationships and that such analysis should include the historical formation of those relationships, the sources of their strength and their fragility. Following Foucault, in this inquiry the approach taken to answering research question 3 – the how question – was to analyse the IOR as an institution from the standpoint of the power relations in the IOR while taking account of impacts on the IOR from its environment and the structuration effects of feedback and

history on the IOR and its power relationships. Foucault (1983) suggested that the analysis of power relations required 'a certain number of points to be established concretely'; these points included:

- 'The system of differentiations which permits one to act upon the actions of others' In this inquiry the 'differentiations' between the organizations in the IOR were grounded in the successive IOR contracts. In figure 3 these IOR contracts are part of what constitutes the green box 'IOR'.
- The types of objectives pursued by those who act upon the actions of others' In this inquiry these agents were the GM and MU and in figure 3 these agents are represented in the blue and green boxes. In addition to the objectives of these agents, their expectations of IOR outcomes, perceptions of risks, norms, and of each other are also included in figure 3 mainly with the aim of providing a rich fine grained analysis of the power relationships in the IOR and their linkages to the IOR environment and history.
- 'The means of bringing power relations into being: according to whether power is exercised by ... economic disparities ... or by means of control'. In this inquiry these 'means' were at IOR level specified in the IOR contracts and put into effect in the conduct of the IOR. In figure 3 these processes are reflected in the line arrows of determination particularly all of those feeding in directly or indirectly to the green box 'IOR Events - Exercise of Power'.
- 'Forms of institutionalization': a wide variety of forms was possible. In this inquiry at IOR level the form taken was the IOR contract ('with its own regulations'). Also relevant in this inquiry was the next level up of institutional analysis (of which the IOR contract was just one of many such IOR contracts), the M_G . In figure 3 the M_G is included within the yellow box 'NHS and Higher Education Inter-sector Institutional Arrangements'.

In Figure 3, **IOR Agency** was assumed to be driven by the **ideas, aims and objectives** of the IOR agents. These ideas, aims and objectives may have varied according to issues and contexts – they were not necessarily either wholly or partly economic. The capacity of IOR agents to achieve their aims was dependent on their **Powers ('Power to' and 'Power over')**. Whether, when and how IOR agents used their powers was mediated by their **expectations** of potential outcomes and the **perceived risks** of the choices open to them. These expectations and perceptions of risk of IOR agents were affected by IOR agents' **perceptions of other IOR agents** (e.g. by the perception the IOR supplier had of the GM) in particular of the intentions of other IOR agents, the extent to which their interests were mutual and their expected behaviour. The expectations of IOR agents of potential IOR outcomes might also have fed back to modify their perceived interests and goals and also their perceptions of the congruence of their interests and goals with those of other IOR agents (e.g. as between a supplier and a GM). IOR agents might have **exercised their powers** either strategically or habitually; for example, an IOR agent's expectations of outcomes might have been so well formed on particular issues and in particular contexts that the social reality was 'taken for granted' and the IOR agent's conduct was habitual. An important influencing factor on the exercise of power by IOR agents was assumed to be their perceptions of the force of norms and constraints whether these were within their own organizations or in the institutional environment.

The **Institutional Environment** of the IOR, particularly the macro institutional environment was assumed to be important in 'determining', 'shaping', or influencing IOR agency and its components. For example, an important source of the powers of the GM in the IOR was the Health-Higher education inter-sector institutional arrangements, i.e. the M_G which became the institutional arrangement within which context the IOR was originated, developed, and conducted. IOR agents might however also have influenced or shaped their institutional environment to some extent. The latter was represented by the dotted line arrows 'Power over' between IOR Agents and their institutional environments at sector level. Each IOR agent might have influenced other IOR agents

including their institutional environment; for example, the GM might have influenced the M_G institutional arrangements.

IOR Key Outcomes and Performance: these were the outcomes of IOR agency as shaped by the power-dependence relations between IOR agents and by the institutional environment and events.

Consequences for IOR in/stability: these followed on from IOR key outcomes and performance.

Processes of feedback: these processes arose from IOR key outcomes and performance and the consequences for IOR in/stability; they included resultant feedback from the IOR to all constituents of the environment (i.e. including the macro institutional environment, the health and higher education sectors, and the health and higher education inter-sector institutional arrangements); there was also feedback to components of agency, partly via processes of reflexivity of the IOR agents themselves.

3.3.3 Procedure Part Three – Development of Interpretations (2)

This stage in the development of interpretations commenced with the bringing together of the constituents of the empirical reality to be interpreted. These constituents comprised (i) the events, endogenous as well as exogenous to the IOR, which occurred within the reference period and which were thought likely to have been associated with changes in the stability of the IOR in its dimensions and components, and with the patterns of that stability, were identified (ii) movements in the stability over time on each dimension of the IOR.

The relevant key events affecting stability of the IOR in each of its principal components (contracts, outputs, prices and performance are shown below as Tables 4(i) and 4(ii). The events were selected from the history of the IOR which had been developed and consisted in events which were exogenous and endogenous to the IOR.¹³⁵ Events included developments in the M_G institutional arrangements during the reference period, particularly any which might have affected the underlying conditions of ‘monopsony’, and relevant changes in the organization structures of the IOR organizations.

The final step in the development of interpretations was an inductive one: events and movements in stability which took place in a given time period were examined and using the EEAPOC framework, inferences made about plausible connections between events, IOR agency, and stability impacts. Narratives of interpretation of the interplay of events, IOR agency, and stability impacts on the IOR were then constructed; these narratives are presented in chapter 6 below. The narratives were structured into four parts. The first of these concerned the origins of the IOR. The remaining three narratives were structured into consecutive time periods (1996-2004, 2005-2007, 2008-2013) each of which reflected material changes in the contracts component of the IOR as well as distinctive impacts on the stability of the IOR, its dimensions and components.

Foucault (1983) argued that relationships of power had a continuing potential to become confrontations (or ‘struggles’) between two adversaries; equally those relationships ‘may give place to the putting into operation the mechanisms of power.’ The search for interpretations of power relationships could consequently be done either ‘from inside the history of the struggle or from the standpoint of the power relationships’. In regard to ‘struggles’, Foucault (1983) argued that ‘the mechanisms brought into play in power relations could be interpreted in terms of strategies’. Those strategies could be manifest in the means employed by those in the power relationship to achieve their objective(s). ‘Strategy can be defined by the choice of ... solutions ... power strategy (is) the

¹³⁵ The history of the IOR referred to here is Walsh (2013). Validity checks of that history included ‘member checks’ of the document made by MU senior management.

totality of the means put into operation to implement power effectively or to maintain it' (Foucault 1983). For the last of the periods of the inquiry, 2008-2013, the interpretations of IOR in/stability were developed from 'inside by history of the struggle' through an analysis of 4 'power games'. In each of these games the GM and MU had conflicting objectives. Both the GM and MU deployed strategies to promote their objectives and/or to frustrate the achievement of the objectives of the other. The outcomes of each of those games had specific consequences for the stability of the IOR on twelve of its dimensions. The structure of each power game, the principal players/agents/'adversaries' involved and their objectives are summarised in Table 16; details of the moves/'means employed' in each game are presented chronologically in Tables 17 – 20. All of these Tables (16 -20) are presented and discussed further in Chapter 6.

Events, 'Key Events' and their Relation to Stability Impacts: as part of the inquiry procedure for development of interpretations, movements in IOR stability were plotted in relation to all of the identified events. Although some of these events could be clearly associated with impacts on stability on particular dimensions in or around the same time periods, there were many events (particularly higher level events occurring in the environment of the IOR rather than in the IOR itself) where the connections with stability impacts were either indirect or attenuated over time. This was partly because of the impact of other, intervening, variables between those higher level events and stability impacts. As shown in the EEAPOC framework, Figure 2, these other intervening variables potentially included variables in the IOR environment (e.g. sector level events and variables intervening and ameliorating the effects of macro institutional level events and variables) and IOR agency which itself was potentially affected by changes over time in power relationships – implicit in Figure 2 is the potential for the balance of power in power relationships to change (as well as to be reinforced) through processes of feedback and structuration.

When it came to constructing explanations of IOR in/stability these higher level events and intervening variables were explicitly taken into account. At that stage of the procedure it became possible to associate particular, 'key', events along with the relevant intervening variables (the latter brought together as 'explanations A, B, and C') with stability impacts on dimensions in particular years. These 'key' events are set out in Table 21 and the stability impacts associated with these key events and the relevant explanations are set out in Table 22; 'key events' most directly associated with IOR stability impacts 'U' and 'TRI' in particular years have been highlighted in yellow in Tables 4(i), 4(ii), 11, 12 and 13.

Caption to Tables 4(i) and 4(ii)

- Summaries of events and when these occurred which were relevant to IOR stability impacts for the reference period 1995-2013.
- All events are grouped into the components of the IOR (contracts, outputs, price and performance) where these were most relevant. However it should be noted that some events had relevance on more than one dimension and which went across different components of the IOR e.g. 'GM devises and implements a new strategic framework – 2007-2013.
- Some events were part of a continuous process (e.g. the consolidation of nursing as a profession); other events were discrete, one-off events (e.g. the Project 2000 review) but which may indirectly have had an eventual stability impact on dimensions of the IOR (e.g. the Global Financial Crisis of 2008).
- Some events, also described as 'key events' (and highlighted in yellow in these tables and also in Tables 11-13), had a direct impact on the stability of the IOR e.g. 'BMP Implementation and Delay' which impacted on some IOR price and performance dimensions.

TABLE 4(i): IOR Events 1995/96-2012/13: CONTRACTS																			
Events & IOR Dimensions	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	
MU NLCHS Merger	X																		
IOR Group 1 Contracts	X	X	X	X	X	X	X	X	X	X									
CoDH established		X																	
GM Restructurings		X		X			X	X		X		X							X
National Standard Education Contract												X				X			
IOR Group 2 Contracts											X	X	X						
NHSL established												X							
LDHG established												X							
IOR Group 3 Contracts														X	X	X	X	X	
LEC 1														X	X	X	X	X	
Development of CPM and QCPM													X	X	X	X	X	X	
ITT & LEC 2																	X	X	
Health & Social Care Act 2012																			X
1 Duration	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	S	S	S	TRI	TRI	
2 Termination	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
3 Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI
4 Placement Responsibilities	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
TABLE 4(ii): IOR Events 1995/96 - 2012/13: OUTPUTS, PRICE, PERFORMANCE																			
Events & IOR Dimensions	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	
Project 2000 Review				X	X														
Nursing Prof. Consolidation						X	X	X	X	X	X	X	X	X	X	X	X	X	X
NMET Levy	X	X	X	X	X	X													
MPET Levy							X	X	X	X	X	X	X	X	X	X	X	X	X
NHS Plan 2000						X													
Health & Social Care Act 2001							X												
NHS 'Reconfigurations'									X	X	X	X	X	X	X	X	X	X	X
NHS Trusts in overall deficit									X	X									
NHS 'Financial Crisis'											X								
MPET ring fence lifted											X								
HE 'boom-bust' lobbying											X	X	X						
IOR Tender/Price Negotiations	X	X						X			X	X	X						
MU/UCL buy Archway Site		X																	
NAO NHS Education Review							X												
BMP Initiative							X	X	X										
BMP delay & implementation											X	X	X	X	X				
Health & Social Care Act 2003									X										
PBR Hospitals Funding									X	X	X	X	X	X	X	X	X	X	X
New Contracts: Consultants; GPs									X	X									
First Foundation Trusts created										X									
FESC; WCC; 'Education Commissioning Regime'												X	X	X	X	X	X	X	X
GM devises & implements new '(VFM)max Strategic Framework'													X	X	X	X	X	X	X
BMP review & negotiations												X	X	X					
HEFCE NHS-HE Review														X					
UKHEAC, HENSE established													X	X					
Global Financial Crisis													X	X					
'Nicholson challenge': QIPP															X	X	X	X	X
NHS Workforce Plans & Education Plans linked															X	X	X	X	X
IOR supplier capacity plans															X	X	X	X	X
FSWT, OBC and ITT initiatives																X	X	X	X
OBC & ITT IOR negotiations																X	X		
NHS (£30bn) p.a by 2020/21																			X
MU Op. Surplus/Deficit %	3.1	2.9	-0.1	2.2	0.7	-5.2	-4.6	-1.6	-4.1	-8.7	-13.5	0.5	0.9	1.2	1.7	3.1	4.4	7.1	
MU NHS Contracts Sustainability Reviews												X			X			X	
HE Tuition Fees: £1k/£3k/£9k				X								X						X	
5 Output Specification	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
6 Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI
7 Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S	S	S	S	S	TRI	S	S	S	S
8 Trends in GM Demand for Output Quantities	S	S	S	S	S	S	S	S	TRI	TRI	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
9 Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	S	S	S	S	S
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
11 Basis of Price - OBC Risk	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
12 Actual Price v Supplier's FEC	U	U	U	U	U	U	U	U	U	U	U	U	U	U	?	?	S	S	S
13 Performance (i)	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
14 Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

3.3.4 Procedure Part Four: Development of Explanations

To aid the development of explanations of why the IOR key outcomes and in/stability consequences came about (inquiry overall question 4) the high level theoretical framework presented in Chapter 2 (Figure 2) was used. The rest of the procedure used for the development of explanations was similar to that used in Part Two above for the 'Development of Interpretations (2)': (i) the same constituents of the empirical reality and the findings about IOR in/stability which were brought together in Part Two above (see Tables 4(i) and 4(ii)) were also used in Part Three (ii) an inductive approach was used: using the high level theoretical framework, inferences were made about plausible connections between resource dependence and the power dependence responses of the IOR actors, historical dependence processes and the impact of the initial conditions of the M_G , IOR agency, events (exogenous and endogenous to the IOR), and IOR stability impacts over time (iii) five narratives of explanations were constructed. The first four of those narratives were structured in the same way as the interpretations in Part Two, i.e. the first narrative related to the origins and initial outcomes of the IOR, while the second, third and fourth narratives were structured into the same consecutive time periods. The fifth narrative consisted in (i) conclusions drawn from the previous four narratives and (ii) based on those conclusions, an explanation of the stability of the IOR over the reference period as a whole.

To support the development of explanations as well as to clarify the analysis:

1. Seven tables (Tables 5(i) - 5(iv), 11, 12, 13) were constructed which consisted in summaries of the main events (exogenous and endogenous to the IOR) relevant to the origins and to each of the three periods of the IOR.

2. The history of the IOR over the reference period was analysed to identify types of historical dependencies which were relevant. This analysis was completed at two levels:

(i) At IOR level in respect of IOR stability impacts. This analysis was completed at IOR dimension level for each of the 18 years of the reference period. Based on the classification of types of historical dependence developed by Page (2006), four types of historical dependencies were identified as potentially the most relevant:¹³⁶

- Initial Conditions (IC)
- Founder (F)
- Forgetting (FG)
- Burden of History (BU)

(ii) At the level of the context of the IOR. The analysis at this level concerned the conditions under which the IOR existed, specifically focussing on the conditions of M_G and the types of historical dependencies relevant to the persistence of those conditions.

3. The history of the IOR over the reference period was also analysed to identify the types of power dependence responses used by the IOR actors which were relevant to the IOR stability impacts.

¹³⁶ See Chapter 2 for definitions of these which were given by Page (2006). It should be emphasised however, following Sewell (1996) and Pierson (2004) and as stated earlier, that all of these types of historical dependence despite their origins in ball and urn model simulations, were assumed in this inquiry to be non-deterministic and to be potentially associated with path dependence as well as with path dependence. A further difference from Page in this inquiry was that 'Initial Conditions' were defined in this inquiry as a type of historical dependence.

Based mainly on the typology of power dependence responses developed by Emerson (1962), 12 types of power dependence responses (five by MU and seven by the GM) were identified:¹³⁷

- MU - Cost Reduction/Productivity Improvement
- MU - Internal Cross-subsidy
- MU – Acceptance of Increase in IOR Performance Risk
- MU - Lobbying
- MU - Coalition Formation
- GM - Outputs Demand Changes
- GM - Rent Extraction
- GM – Transfer of IOR Performance Risk
- GM – Increasing Compliance Surveillance (‘Monitoring Creep’)
- GM - Lobbying
- GM - Exercise of Discretion or Veto
- GM – IOR Rules Change

The outputs of the analyses of types of historical dependence processes at the IOR level and of power dependence responses by the IOR actors were brought together with the findings on IOR stability impacts in Table 15 below; historical dependence processes were analysed for each of the dimensions of the IOR and for each of the years of the reference period.

Caption to Table 15

- Shown are the types of historical dependence (HD) processes associated with stability impacts by IOR dimension for each year of the reference period.

Example: Dimension 1

<u>Years</u>	<u>Stability Impact</u>	<u>HD Process</u>
1995/96-1999/2000	S	Initial Conditions (IC)
2000/01-2004/05	S → TRI	Founder (F1)
2005/06-2007/08	TRI	Forgetting (FG)
2008/09-2011/12	S → TRI	Founder (F2)
2012/13	TRI	Founder (F3)

- Shown for each dimension is the incidence of the types of HD processes for each year of the reference period. Examples of these were:

Example 1995/96: Initial conditions – 12 dimensions; Founder – 4 dimensions

Example 2009/10: Initial Conditions – 1 dimension; Founder – 10 dimensions; Forgetting – 4 dimensions; Burden of History – 1 dimension

- Shown is the occurrence of particular types of power dependence responses by the GM and MU respectively for each year of the reference period. Examples of these were:

Example 1995/96: MU – Cost Reduction/Productivity Improvement; GM – Rent Extraction

¹³⁷ See Chapter 2 for definitions and elucidations of these twelve types of power dependence responses.

Example 2012/13: MU – Cost Reduction/Productivity Improvement, Acceptance of Increased Risk; GM – Output demand Changes (red crosses in Table denote reductions in demand from previous year), rent Extraction, Increasing Compliance Surveillance, Exercise of Discretion/Veto, IOR Rules Change, Transfer of Risk.

- Types of power dependence responses by MU and the GM increased during the reference period, particularly in 2005/06 (from 3 to 6 different types) and again from 2008/09 (from 6 to 8 different types). By 2012/13 the GM alone was using 6 different types of power dependence responses mainly reflecting a range of strategies it was using to consolidate or to increase its domination in the IOR.

TABLE 15: IOR Stability, Historical Dependence Processes and Power Dependence Responses 1995/96 - 2012/13																		
Historical Dependence Key: IC = Initial Conditions; F/F1/F2/F3 = Founder; FG = Forgetting; BU = Burden of History																		
IOR Stability Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable																		
IOR Key Outcomes: <u>COMPONENTS & Dimensions</u>	Stability Impact over Time																	
	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
CONTRACTS																		
1 Duration	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	FG	FG	FG	F2	F2	F2	F2	F3
2 Termination	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	FG	FG	FG	F2	F2	F2	F2	F2
3 Compliance - Information; Management & Review	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	F1	BU	BU	BU	F2
4 Placement Responsibilities	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	FG	FG	FG	F	F	F	F	F
OUTPUTS																		
5 Output Specification	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2
6 Output Floors and Ceilings	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	FG	FG	FG	F	F	F	F	F
7 Size of Short Run Variability of Output Quantities	IC	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG
8 Trends in GM Demand for Output Quantities	IC	IC	IC	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG
PRICE																		
9 Basis of Price - Innovation	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	F	F	F	F
10 Basis of Price - FEC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2	F3	F3	F3	F3
11 Basis of Price - OBC Risk	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
12 Actual Price v Supplier's FEC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2	?/F3	?/F3	F3	F3
PERFORMANCE																		
13 Performance (i)	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG
14 Performance (ii)	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG
Initial Conditions & Historical Dependence Processes																		
Initial Conditions	12	9	9	8	8	5	5	5	5	5	3	3	3	2	1	1	1	1
Founder	4	4	4	4	4	7	7	7	7	7	5	5	5	10	10	10	10	11
Forgetting		3	3	4	4	4	4	4	4	4	8	8	8	4	4	4	4	4
Burden of History															1	1	1	
Power Dependence Responses																		
MU Cost Reduction/Productivity Improvement												X	X	X	X	X	X	X
MU Internal Cross-subsidy	X	X	X	X	X	X	X	X	X	X	X	X	X	X	?	?		
MU Acceptance of Increased Risk												X	X	X	X	X	X	X
MU Lobbying												X	X	X	X	X	X	
MU Coalition Formation														X		X	X	
GM Output Demand Changes		X	X	X	X	X	X	X	X	X		X			X	X	X	X
GM Rent Extraction	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
GM Increasing Compliance Surveillance														X	X	X	X	X
GM Lobbying															X		X	
GM Exercise of Discretion or Veto											X	X	X	X	X	X	X	X
GM IOR Rules Change											X		X	X				X
GM Transfer of Risk											X	X	X	X	X	X	X	X

3.3.5 Procedure Part 5: Development of Critique and Recommendations

The fifth and final part of the research procedure concerned the second aim of the inquiry and was focussed on the development of answers to research question 5. The origins, initial conditions and the persistence of the IOR under conditions of M_G operating within a macro context of a 'new public management' (NPM) approach to public sector management (one of the main findings in the inquiry, set out in Chapter 4) were taken as the starting point in this part of the research procedure. An important theoretical underpinning of NPM generally and also specifically in the IOR was principal-agent theory (PAT). PAT is outlined briefly and strengths and limitations claimed in the literature to be associated with PAT are considered. The limitations of PAT centred on its empirical validity, specifically in terms of the ubiquity of power (Foucault 1983, 1988), the characteristics of institutions (Mahoney and Thelen 2010) and of market institutions in particular (Chang 2010), and of how markets actually function under conditions of asymmetric power. Within this framework of strengths and limitations of PAT, the actual outcomes and stability impacts of the IOR were considered as an empirical example of what happened in an NPM approach. Based on the latter and drawing on the theoretical framework of PAT strengths and limitations, a normative critique of M_g as a technique for NPM was developed.

This part of the research procedure was concluded with a set of recommendations for policy and management of NHS-HE relationships at both IOR and inter-sector levels. These recommendations were made after taking into account (i) an update of the position on NHS-HE inter-sector institutional arrangements in January 2016 since the end of the reference period of the inquiry (March 2013) (ii) the existence of a wider set of relevant stakeholders (beyond the GM and MU) at M_G , inter-sector and macro societal levels.

3.4 Methodology (iv): Validity

Validity has been defined as the plausibility or correctness of the outputs of the research inquiry.¹³⁸ These outputs include the historical account which was developed, the interpretations and explanations which were inferred, and the conclusions drawn. Validity as a component of the methodology for the research inquiry consisted of the strategies used to mitigate the main threats to the validity of the research outputs. Four significant potential threats to validity were identified:

- Construct validity
- Incomplete data and data limitations
- Researcher bias
- Reactivity

3.4.1 Construct validity

This validity threat concerned the extent to which the following were appropriate for the development of valid descriptions, interpretations and explanations of the phenomena studied:

- (a) The typology of the IOR ('Contracts', 'Outputs', 'Price', 'Performance')
- (b) The concept of IOR stability and the constructs developed to operationalise that concept,

¹³⁸ This definition of 'validity' and its use as a component in the methodology for the research inquiry comes from Maxwell, J. (2005) 'Qualitative Research Design' 2nd edition, Sage Publications, Thousand Oaks, California, pp 105-116

(c) A theoretical framework for the explanation of IOR reproduction and change, and a conceptual framework (EEAPOC) derived from the theoretical framework.

The main strategy used to mitigate this validity threat was to review the relevant literature (including IOR, IOR stability, HI, institutional theory, power-dependence relations, and monopsony) and then to develop and define the constructs used in the research in ways which either closely corresponded with established theory, or developed the latter specifically to address some of the gaps in theory which were relevant to the empirical reality of the IOR.

The theoretical and conceptual frameworks, although new, were for the most part syntheses or adaptations of established theory: Hollingsworth (2002), Morriss (2002), Lukes (1975/2005), Foucault (1983, 1988), Sewell (1996), Pierson (2004), Page (2006), Streeck and Thelen (2005), Emerson (1962), Casciaro and Piskorski (2005), Huxham and Beech (2008), Blair and Harrison (2010), Stucke (2013), and Mahoney and Thelen (2010). The overall approach taken in the inquiry, an agent-centred HI, was based on the argument and recommendations made by Bell (2011). The concept of IOR 'stability' was informed by the IOR literature and grounded in the empirical reality ('dimensions') of the IOR. The typology used to describe the IOR was based on constructs used in the transaction cost economics literature to conceptualise exchange relationships in contract-based IORs (Hennart 2008, Daz and Teng 2000).

However, there were no precedents for bringing together all of these elements (frameworks, concepts, and typology) into an HI approach for an inquiry into IOR stability under conditions of government monopsony. The operationalisation of the concept of stability in IOR (IOR dimensions, stability impact indicators, and stability assessments) was also new. Consequently, the research inquiry was exploratory in nature and its conclusions about IOR stability under conditions of government monopsony should be regarded as propositions for further research and development.

3.4.2 Access, Data Coverage and Data Limitations

Access: the writer was a senior manager of MU and had full responsibility for the IOR with the GM for the last half of the reference period, from 2004 to 2013. Consequently the writer had full access in MU to all IOR documentation for the whole of the reference period, including MU strategy and planning reports, management accounting data and information, curriculum and academic workforce information. The writer also had full access to MU's archive on the IOR which included documents covering the period 1995 to 2004. The writer also had full access to all IOR communications between MU and the GM over the last half of the reference period (i.e. from 2004 to 2013), including copies of all presentations and GM commissioning data.

Data Coverage: at sector level, data coverage was considered to be good: both the health and higher education sectors in England as well as the organizations in those sectors were extensively and reliably documented over the whole of the reference period of the inquiry. At sector level there were also good records going back before the reference period. The latter also applied to the documentation available for the relevant occupational groups.

At institutional level (i.e. for the IOR): the stability impacts data were analysed in regard to the extent and quality of data coverage. The results of this analysis are summarised in Table 3(ii) below.

Caption to Table 3(ii)

- Data coverage in the inquiry on each of the 14 dimensions is shown for each year of the reference period.
- Three categories were used to describe data coverage, viz. 'data complete', 'data estimated' and 'data gaps'. Data coverage was found to be 80% 'complete' and 19% 'estimated'. Data gaps accounted for only 2 of the 252 possible data points, i.e. c. 1%.

TABLE 3(ii): IOR Stability over Time - Data Coverage

Data Complete: These are shown in normal vertical mode in the blue cells.																		
Data Estimates: These are shown at 45° angles in the yellow cells.																		
Data Gaps: These are shown as question marks in the pink cells.																		
Stability Impact over Time																		
IOR Key Outcomes:	1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/
<u>COMPONENTS & Dimensions</u>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CONTRACTS																		
1 Duration	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	S	S	S	TRI	TRI
2 Termination	↘	↘	↘	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
3 Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI
4 Placement Responsibilities	↘	↘	↘	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
OUTPUTS																		
5 Output Specification	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
6 Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
7 Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S	S	S	S	S	TRI	S	S	S
8 Trends in GM Demand for Output Quantities	↘	↘	↘	S	S	S	S	S	TRI	TRI	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI
PRICE																		
9 Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	S	S	S	S
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
11 Basis of Price - OBC Risk	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
12 Actual Price v Supplier's FEC	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	?	?	S	S
PERFORMANCE																		
13 Performance (i)	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	S	S	S	S	S	S
14 Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

There were 14 data points (one for each dimension) for each of the 18 years of the reference period, making a potential total of 252 data points. 201 (c. 80%) of these data points were completed without difficulty.

Estimates were made for a further 49 (c. 19%) of the data points; those estimates were believed to be reliable – the supporting evidence available was sufficiently strong that only relatively weak assumptions were needed for the relevant stability impact estimates to be made: except for the 1995 GM/MU contract, all contract documentation was available for the whole of the reference period. With regard to the 1995 contract, it proved possible through referring to other documents around that time and from interviewing MU senior management reliably to infer and estimate the missing data. IOR and output performance assessments by the GM and external regulators for the period 1995-2006 were inferred on the basis that contracts were renewed (implying IOR performance was at least satisfactory for the GM perspective), and that pre-registration programmes continued to be validated by the regulator and their outputs continued to gain professional registration – all implying that the external regulator also considered the IOR output performance to be at least 'satisfactory'.

Altogether 2 (c. 1%) of the data points could not be completed or estimated. Overall, the results of the analysis supported the conclusion that coverage of the IOR stability data was good for the whole of the reference period, 1995-2013.

(iii) At organization level: with regard to MU, data coverage was good for the whole of the reference period. There were extensive archival records for the period 1994-2004. For 2004-2013 the records were virtually complete, including an email database of virtually all MU internal communications, and also all external communications with the GM and other external parties. With one exception, there was complete information regarding output quantities, price, and performance dimensions of the IOR. The one exception concerned the relation of actual price levels to MU FEC levels (dimension 14). It was not until 2011 that MU calculated explicitly its actual FEC for its NHS activities. However, it proved possible to make reliable estimates of the likely relationship of actual FEC levels to actual price levels for all but two of the preceding years of the reference period (1995-2008).

With regard to the GM: the main data gap here concerned communications: there were no data on the communications which were internal to the GM; however many details of the GM's formal strategies, plans and reported performance both at overall organization level as well as at the level of the M_G , were available particularly in the latter half of the reference period from 2005, and from those it was possible to make plausible inferences about the priority objectives of the GM and its perceptions of its interests.

Data Limitations: the main limitation of the data concerned its usefulness for substantive inferences to be made about agency: inferences made in respect of the GM about 'expectations', 'perceived interests' and 'perceived force of norms and constraints' were based on data drawn from formal statements and reports. The position on this was better in regard to inferences on these matters made about MU. Here the researcher in virtue of being a senior manager in MU was able to draw on personal knowledge gained over many years in formal and informal settings across a range of organizational contexts in MU.

3.4.3 Researcher bias

The researcher (and writer) in this research inquiry was the senior manager in MU with responsibility for the IOR for the last 9 years of the 18 years of the reference period of the research. Consequently the researcher gained experiential knowledge of the IOR which has been useful in the development of the research inquiry and in production of its outputs. A threat to validity here was researcher bias e.g. the selection of data which 'stand out' to the researcher; the development of descriptions which emphasise some phenomena and neglect others; the development of interpretations which selectively focus on phenomena the researcher knows relatively more about; and the development of particular types of explanations.

Four strategies were used to mitigate this threat to validity:

1. Thick description: the historical account of the IOR was relatively detailed, this being made possible by the extensiveness of the research database, particularly for the last 9 years of the 18 years period of the IOR.
2. Accessibility for evaluation of the research outputs: the conceptual and explanatory frameworks, the concepts and operational constructs, and the underlying assumptions were fully defined.
3. Member checks: drafts of the historical account of the IOR together with a copy of the database which was used in the construction of that history were given to senior management members of MU for them to check the accuracy, comprehensiveness and overall validity of the history. They completed those checks. A final version of the history was agreed and subsequently used as one of the main empirical inputs to the research. A similar process of member checks on the dissertation was carried out. The same members of MU senior management who had validated the historical account also validated the dissertation; apart from a few minor corrections, they fully endorsed the dissertation.
4. Expert academic review: the draft research outputs (including drafts of the dissertation), the historical account and a copy of the research inquiry database and archive were given to the academic supervisors of the research and their subsequent comments taken into account in the final version of the research outputs.

3.4.4 Reactivity

'Reactivity' refers to '*the influence of the researcher on the setting or individuals studied*'.¹³⁹ Maxwell suggests that while it is impossible to eliminate the influence of the researcher it is helpful '*to understand it and use it productively*'.¹⁴⁰ To mitigate this validity threat, the researcher's actual and potential influence as a member of an organization in the IOR was taken into account particularly when it came to the part of the research procedure involving the development of interpretations and explanations.

¹³⁹ Maxwell, J. (2005) *ibid* p. 108

¹⁴⁰ Maxwell, J. (2005) *ibid* p. 109

4.0 Introduction

The main aim of this Chapter is to present and analyse the empirical findings in regard to research question set 1 of the inquiry¹⁴¹, viz.

1(i) What were the origins and initial conditions of the NHS-HE inter-sector institutional arrangements and of the IOR? (ii) What were the conditions of these arrangements over the reference period?

This question is dealt with below in two parts, firstly in regard to the NHS-HE inter-sector institutional arrangements (the 'M_G') and secondly in regard to the IOR. The first part which follows is split into four sub-sections, dealing with the history of respectively the NHS, the development and regulation of nursing, the UK higher education sector, and a confluence of events which led to the establishing of the M_G. Each of these sub-sections is concluded with a statement regarding the underlying conditions of M_G which were satisfied and a further statement regarding the persistence of those conditions over the whole of the reference period of the inquiry (1995-2013). The second part deals with the origins of the IOR.

A further aim of this Chapter is to consider the conditions under which the IOR existed after it was established, specifically to answer the question whether, over the reference period, those conditions continued to amount to M_G.

4.1 Origins and Initial Conditions of the M_G

The institutional arrangement, within which the IORs between the NHS Education Purchaser/Commissioner and Education Providers were established and developed, was a Government Monopsony ('the M_G'). The M_G was established as part of the reforms of the NHS enacted under the 1990 NHS and Community Care Act and implemented in the early 1990s.¹⁴² The origins of the M_G and the form it eventually took in terms of contractually based IORs between an NHS education buyer and HEIs, can be traced to events in three areas: (i) NHS (ii) Development of non-medical occupations, particularly nursing, and their regulation (iii) UK Higher Education. A summary of relevant key events in these areas is given below in Tables 5(i)-(iii). These events are described over the next three sections of this Chapter; how these events came together to bring about the M_G is considered in a concluding summary section.

¹⁴¹ The other research questions of the inquiry are dealt with in later Chapters: question 2 is dealt with in Chapter 5 and questions 3-4 are dealt with in Chapter 6.

¹⁴² NHS Community and Care Act 1990; available at <http://www.legislation.gov.uk/ukpga/1990/19/contents/enacted> Accessed February 2014

Caption to Tables 5(i) – 5(iii)

- Summaries of events leading up to the formation of the M_G.
- Three strands of events are shown: in Table 5(i) events in the development of the NHS; in Table 5(ii) events in the development & regulation of Nursing occupations; in Table 5(iii) events in UK HE.
- The overarching context and events which brought these strands together was the development of a new approach to public sector management. That context and the specific events within that context which led to the creation of the M_G are outlined in Chapter 4.

<u>Table 5 (i): Origins of the M_G – NHS Reforms Events & Timeline</u>	<u>Year</u>
NHS Act 1946: the NHS was established, including in its scope the schools of nursing in the UK	1948
NHS Reorganisation Act 1973 – establishing of ‘Area’/‘Regional’/‘Strategic’ Health Authorities	1973
NHS Act 1977 – new framework for the NHS, distinguishing ‘primary care’ and ‘secondary care’	1977
Griffiths Report on NHS management	1983
Government acceptance of recommendations of Griffiths Report and subsequent implementation	1984-2002
White Paper ‘Working for Patients’ - blueprint for NHS reforms	1989
‘Working for Patients WP 10’ - blueprint for NHS Education and Training	1989
NHS and Community Care Act: the NHS internal market begins	1990
NHS Trusts established (57 in 1991, 270 by 1996)	1991-1996
Implementation of DH WP 10	1991-1996
Funding of nursing education transferred from national professional boards and DHAs to RHAs	1991-1993
<u>Table 5(ii): Origins of the M_G – Development and Regulation of Nursing Events & Timeline</u>	
The world’s first professional training school for nurses was established	1860
The College of Nursing (later the RCN) was established	1916
Nurses Registration Acts and establishing of the General Nursing Council for England and Wales	1919
Nurses Act 1943	1943
Nurses Act 1949	1949
Salmon Report (on nursing structure)	1966
Briggs Committee and Report (on nursing)	1970-1972
Nurses, Midwives and Health Visitors Act	1979
UK Central Council (UKCC) for Nursing, Midwifery and Health Visiting established	1983
Judge Committee and Report	1983-1985
UKCC Report ‘Project 2000: A New Preparation for Practice’	1986
DH accept Project 2000 recommendations	1988
Implementation of Project 2000	1989-1992
<u>Table 5 (iii): Origins of the M_G - UK Higher Education Events & Timeline</u>	
The Anderson Committee and the introduction of student maintenance grants	1960
The Robbins Report and expansion of Higher Education in the UK	1963-2012
White Paper: ‘A Plan for Polytechnics and Other Colleges’	1966
Formation of 30 Polytechnics and the implementation of a Binary System for UK HE	1969-1973
Degrees from Polytechnics validated by the Council for National Academic Awards (CNAA)	1969-1992
Education Reform Act 1988 – creation of ‘Higher Education Corporations’; MP becomes an ‘HEC’	1988
Government introduce principle of ‘contractual funding’ of HE sector	1988
Further & Higher Education Act 1992 – creation of 35 ‘new universities’; HEFCE supersedes UGC	1992

4.1.1 NHS

The NHS was established in 1948.¹⁴³ The overall aims of the NHS were to provide a comprehensive healthcare service based on clinical need on an equal basis to all which was free at the point of use. Other aims included the reduction of health inequalities and responding to different needs of different populations. The main objective of the NHS was *'to improve the physical and mental health of the people through the prevention, diagnosis and treatment of illnesses'*.¹⁴⁴

The funding of the NHS was mainly from government taxes, principally income tax and also from national insurance contributions. The total net expenditure for the UK NHS between 1950/51 and 2010/11 is summarised below in Table 6. In real terms the total net expenditure for the UK NHS between 1950/51 and 1990/91 increased 4 fold between 1950/51 and 1990/91. As a proportion of GDP, NHS expenditure grew from 3.5% in 1950/51 to 4.7% in 1990/91.

Table 6: Net government expenditure on the UK NHS 1950/51 to 2010/11¹⁴⁵

Year	Net expenditure (£m at 2010/11 prices)	Net expenditure as a % of GDP
1950/51	11,782	3.5
1975/76	32,964	4.9 ¹⁴⁶
1990/91	44,811	4.7
1999/00	63,204	5.2
2005/06	101,964	7.0
2009/10	121,477	8.3
2010/11	121,305	8.2

The growth of the NHS over the whole period reflected several factors these including rising expectations of, and demand for free healthcare, and an ever-widening range of treatments made possible by advances in medical technology. Many of these factors were inter-related, e.g. increasing standards of public health and the effectiveness of medical technologies combined to increase longevity which in turn was associated with changing epidemiological patterns particularly in relation to an aging demographic of the general population.

Context - Neoliberalism, Public Choice Theory and New Public Management: Neoliberalism has been defined as *'as a specific economic discourse or philosophy which became dominant and effective in world economic relations (from around the mid-1970s in the USA and from c. 1979 in the UK) as a consequence of super-power sponsorship'* (Olssen & Peters 2005).¹⁴⁵ Manifestations of this discourse in government have been described as *'an art of government containing forms and systems of expertise and technology utilizable for political control'* (Foucault 1991, Olssen and Peters 2005). In a

¹⁴³ This was enabled by the passing of the National Health Service Act 1946. Available at: <http://old.post-gazette.com/pg/10119/1054305-114.stm> Accessed February 2014

The origins of the NHS itself and the values reflected in its overall aims and main objective are beyond the scope of this dissertation.

¹⁴⁴ 'A Guide to the NHS', Geoffrey Rivett, February 2013. Available at:

http://www.nhshistory.net/a_guide_to_the_nhs.htm Accessed 21st May 2013.

¹⁴⁵ Source: 'NHS funding and expenditure, Standard Note SN/SG/724', Rachael Harker, Social and General Statistics, House of Commons Library, London April 2012. Available at: <http://www.nhshistory.net/parlymoney.pdf> Accessed February 2014

¹⁴⁶ In the mid-1970s there were rapid rises in the level of costs and prices in the UK, (especially in energy, wages, and property and these reached relatively high levels very quickly. Consequently, caution is needed when the figures for 1975/1976 are used in the making of comparisons with figures for other periods.

neoliberal perspective, markets were seen by government policy makers as potentially an important technology which could be used to exercise control and enhance performance in the public sector (Olssen and Peters 2005).

Many of the key assumptions underlying neoliberalism were similar to that in classical economic liberalism; including (i) maximisation of self-interest was the motivator of individual behaviour and (ii) markets, particularly free markets, were the most efficient means for the allocation of resources and the generation of opportunities/innovation. However, a distinguishing characteristic of neoliberalism was in regard to ideas about how free, self regulating markets were brought about and how the state needed to act positively to ensure the establishment of such markets. In classical economic liberalism the assumption was made that 'free' markets would emerge spontaneously in the course of economic exchange. From the early 1960s with the development of Public Choice theory (PCT), this assumption was queried. PCT theorists (e.g. Buchanan 1962) *'had little faith in the "spontaneous" ordering of the market or in the efficiency of the social evolutionary process'* (Olssen and Peters 2005). In contrast, PCT theorists maintained that spontaneous or social evolutionary processes in the development of markets might produce social chaos and dysfunctional patterns as readily as they might social harmony and equilibrium (Buchanan 1962). Rather, to promote market efficiency Buchanan argued, there was a role for government to exercise 'positive power', *'acting deliberately through the vehicle of the state to engineer the conditions for efficient economic production'*, *'acting deliberately through the vehicle of the state to engineer the conditions for efficient economic production'* (Olssen and Peters 2005). Within a PCT approach, *'market techniques were systematically developed and first became a technology for institutional governance'*. PCT approaches constituted *'a supply-side process of "governing without governing", a process by which compliance was extracted through systems that measured performance according to both externally imposed levers and internally reinforced targets'* (Olssen & Peters 2005).

'Influenced by, and building upon PCT a number of internal theories of organization through which efficiency and effectiveness were rendered operative in public sector institutions became prominent from the 1970s' (Olssen and Peters 2005). These theories included principal-agent theory (PAT). The overall umbrella for these theories (PCT, PAT) and the techniques developed in their application became known as New Public Management (NPM). Central to NPM was an emphasis on contract: *'NPM in applying quasi-market or private sector micro-techniques to the management of public sector organizations replaced the "public service ethic" whereby organizations were governed according to norms and values derived from assumptions about the "common good" or "public interest" with a new set of contractualist norms and rules'* (Olssen & Peters 2005, p. 324).

'In neoliberalism the patterning of power is established on contract, which in turn is premised upon a need for compliance, monitoring, and accountability organized in a management line and established through a purchase contract based upon measureable outputs' (Olssen & Peters 2005).

NHS Reforms: Partly with the objective of mitigating the increasing burden on government expenditure associated with the growth of the NHS, governments from the 1970's initiated and implemented reforms of the NHS. The reforms most relevant to the origins of the M₆ are summarised in Table 5(i) above. Initially, these reforms were about organizational restructuring of the NHS, consisting in the establishing of Area/Regional/Strategic Health Authorities under the 1973 NHS Reorganization Act, and in 1977 the implementation of a new framework for the NHS which distinguished 'primary care' and 'secondary care'). However, following the change from a Labour to a Conservative led UK government in 1979; subsequent reforms of the NHS reflected a neoliberalism approach taken by government to the management of the public sector generally. The first of these reforms was a substantial development of the management function which included the creation of

new senior management roles in the NHS provider organization (the Griffiths Report of 1983 and the subsequent implementation of the recommendations of that report). Where previously management was a function carried out as part of their duties by professional medical staff, now much of the management function and associated decision-making was to be undertaken by dedicated professional managers.¹⁴⁷

The second reform was the introduction of an 'internal market' into the NHS. In the 1989 White Paper, 'Working for Patients',¹⁴⁸ it was asserted that there were a number of problems in the quality and costs of the NHS. It was claimed that increasing waiting lists and relatively wide variations in the average costs of treating acute hospital in-patients between different health authorities were evidence of organizational problems in the NHS such that merely putting more money into the NHS was not by itself going to address the problems of quality and costs. To address these problems it was proposed in the White Paper that a fundamental change to the contracting structures for healthcare provision in the NHS be made through the creation of an 'internal market'. A defining characteristic of the internal market was the creation of a split between the purchasers of healthcare services, and the providers of such services. The rationale for the split was to enable competition between would-be providers to take place while at the same time devolving as much responsibility as possible to local area/regional level. An important underlying assumption of the government's proposals was that competition between providers, once engendered, would eventually allow resource allocation to be done more efficiently and with better results on quality. Following the White Paper, an 'internal market' was introduced into the NHS in 1990.¹⁴⁹

Reform of NHS Education and Training: As part of its 1989 White Paper review of the NHS, the government also considered the approach to be taken to the contracting of education and training of the NHS workforce. The government concluded that a purchaser-provider split should also be introduced for education services.¹⁵⁰ Specifically it was proposed that the funding for nurse education be transferred from the existing fund holders, the DHAs and the national professional boards, to the RHAs. Funding was to cover:

- (i) The costs to education providers of the delivery of their provision. Education providers were prohibited from charging tuition fees directly to students on NHS purchased places.
- (ii) Maintenance support costs for students on full time programmes; this funding was provided in the form of student bursaries.

Thus all the funding for NHS non-medical workforce education was to continue to come from the state. Using these resources which were devolved to them, RHAs were to act on behalf of the units

¹⁴⁷ The impact of the Griffiths report is discussed in 'The Griffiths NHS Management Inquiry: its origins, nature and impact' (2010) Gorsky, M (ed.), Centre for History in Public Health, London School of Hygiene and Tropical Medicine. Available at:

<http://history.lshtm.ac.uk/Griffiths%20Inquiry%20Witness%20Seminar%20final%20versionsecure.pdf>

Accessed February 2014

¹⁴⁸ 'Working for Patients', White Paper January 1989, Department of Health, HMSO London

¹⁴⁹ NHS and Community Care Act 1990 The NHS internal market had all the characteristics of a 'quasi-market' as defined above in Chapter 2. In creating the administrative structure to administer it, the government's acceptance in 1984 of the Griffiths Report (1983) on NHS management, and the subsequent implementation of the recommendations to create a distinctive and hierarchical management structure to which professional/career managers would be appointed, were crucial to enabling the development subsequently of the internal market in the NHS (Gorsky, M. 2010).

¹⁵⁰ 'Education and Training: Working Paper 10 (WP10)', Department of Health, HMSO London 1989

and Trusts managed by them, as the purchasers of nurse education¹⁵¹. Government policy at the time was *'wherever possible training should be employer led and the supply of training places should be closely linked to the workforce planning needs identified by the service'*.¹⁵² The fact that employers themselves would not be funding their own education requirements and consequently would not be wholly responsible for their own education decisions had been recognised by the government in their 1989 White Paper on Education and Training (WP 10) as a departure from their own policy. The reason for the government's stance on this was to avoid the circumstance where healthcare workforce employers which invested in education would be at a cost disadvantage relative to those employers which did not. Where funding for education came only from employers, there was a possibility that *some* employers would choose either not to invest, or to invest only minimally, in education. Rather, some employers would try to become 'free riders' on the education outputs of those that did. In such circumstances it was believed the internal market for healthcare services would itself become distorted: the costs of education would fall disproportionately amongst healthcare providers with the consequence that some would be at a cost or price disadvantage when competing for contracts. The avoidance of the latter possibility was identified by the government as a key underlying principle of the centralised funding arrangements being proposed for education.¹⁵³

There were additional underlying principles argued for the centralisation of funding for education. These included *'the need to maintain an adequate supply of key professional and technical skills'*.¹⁵⁴ The lead time for the outputs of education at pre-registration level was mostly 3 or 4 years; this was substantially longer than the typically one year horizons of employers' plans, driven by their financial and budgetary constraints. The government also argued the need for a greater use of education contracts where the outcomes of education were more precisely specified. Such contracts were also intended to be used to promote competition between potential education providers and to that extent were expected to bring about the benefits of a 'market' being created.¹⁵⁵

There was one important component of the funding of education on which WP 10 was ambiguous: that concerned the funding of placements costs. In 3 or 4 year pre-registration professional programmes, placements typically accounted for at least 50% of the duration of those programmes and consequently their costs as a proportion of the overall costs of the programmes could be relatively significant. At one point in WP 10 the cost of placements was identified, along with course costs and student support costs, as one of the three elements for funding.¹⁵⁶ However, elsewhere in WP 10 the hope was expressed where employer-led consortia contract with providers to meet their

¹⁵¹ The term 'education' is used in this dissertation where appropriate also to refer to 'training' and vice versa. This is consistent with the usage adopted in WP 10 where 'training' was used to refer to 'education and training'.

¹⁵² 'Political principles in action: a critical analysis of *Education and Training: Working Paper 10* and its implications for nurse education' Burke L.M., *Nurse Education Today* 1995 (15) pp 381-389, p. 382

¹⁵³ The fact that some healthcare (albeit a relatively small amount) was provided privately, i.e. outside of the NHS, was also recognised by the government as a potentially distorting factor. *'For the foreseeable future, however, the overall responsibility for ensuring the continued basic supply of many professional staff will rest with the NHS and arrangements will need to ensure that NHS hospitals are not at a competitive disadvantage to the private sector because of the latter's low(er) training costs.'* Source: *'Education and Training: Working Paper 10'* (1989) *ibid*, p. 12

¹⁵⁴ *'Education and Training: Working Paper 10'* (1989) *ibid* p.9

¹⁵⁵ *Ibid* p. 10

¹⁵⁶ *'Funding should cover all aspects of training costs – course costs, student support and costs of clinical placements'* *Ibid* p. 20

requirements for education, that such employers might be able to absorb the costs of placements within their overall expenditures.¹⁵⁷

The proposed centralisation of the funding for NHS workforce education was implemented over the period 1991 to 1993. Following the reconfiguration in 1991 of the existing local fund-holders for NHS education – the District Health Authorities – and the creation of the first Trusts in the same year, the funding for nurse education was transferred to the Regional Health Authorities (RHAs). RHAs were to act on behalf of the Trusts managed by them, as the purchaser of nurse education.

Each of the RHAs was empowered as the sole purchaser for nurse education in their regions – this was in line with government funding and policy that each of the regions should be self-sufficient for their workforce requirements. Thus most of the education providers had only one purchaser of healthcare workforce education and training that was potentially relevant to them: given the number of regions and the geographic coverage of each, and also given that the requirements of placement meant that students should be able to live within a reasonable travel distance from both their education provider as well as where their placements would be located, this was an inevitable result. Only those education providers situated on the borders of the geographic areas of different regions would in practical terms have potentially more than one NHS education purchaser, but these were only a small minority of the potential education providers.

This was a fundamental change in the arrangements for the procurement of NHS workforce education: previously the DHAs as fund-holders had been the purchasers of the NHS requirements for nursing and midwifery education. There were over 90 DHAs in England each of which funded education to be provided by Schools of Nursing and later Colleges of Health. Any College of Health could in its turn be a supplier to several DHAs – this was because the size of the geographical areas covered by each DHA made it easier for such a many buyers to many sellers interface to be logistically feasible for the provision of education and clinical practice which covered several DHA areas. With the changeover to RHAs however the number of buyers reduced to 14 and the geographical areas associated with the RHAs was much greater. In effect most education providers would now only be dealing with a single buyer.

From the standpoint of the education providers this meant that a new institutional arrangement, in effect a quasi-market in the form of a M_6 , had been created for their provision of non-medical education to the NHS: that a key condition of this quasi-market was the existence of a single buyer (within its designated geographical area). Thus two of the underlying conditions defining the existence of a government monopsony on a quasi-market basis (a single buyer whose standing was protected by government regulation and whose resources came entirely from the state) had been created.¹⁵⁸

¹⁵⁷ Ibid p. 35; this was to become one of the key issues in the arrangements between the NHS education commissioner and the education providers, particularly in relation to the respective responsibilities of the education providers and the placement providing employers.

¹⁵⁸ See Chapter 2 in which the underlying conditions of monopsony and government monopsony are defined. The fact that education providers were not allowed to charge tuition fees to students on NHS purchased places meant that all of the income they obtained for their education provision to the NHS would necessarily come from the NHS buyer (which initially was the RHA).

4.1.2 Development of Professionally Qualified Non-Medical Occupations and their Regulation – Nursing¹⁵⁹

The education¹⁶⁰ purchased in the M_G by the GM was for the non-medical occupational roles in the NHS workforce. The education requirements for gaining professional registration in those occupations, including the content of education curricula and the methods of delivery, were a function of the regulations governing the practice in those occupations, the entry to them and of the historical development of those occupations. A summary of the key events in that development is given in Table 5(ii) above. There were three factors which had a bearing on the origins of the M_G:

1. Nursing was a relatively new profession: the first professional training school for nurses was established in the UK in 1860; the professional body for nursing (the RCN) was founded in 1916; a register for nurses was introduced in 1919 but registration did not become compulsory until 1943; the General Nursing Council with powers in relation to nurse education was established in 1949.

2. The up-skilling of nursing roles was also a relatively new phenomenon: until the 1960's the tasks of the 'traditional nurse' were mainly to do with the hygiene, nutrition and care of the patient's environment. Events leading to the development of modern nursing roles were mainly as a result of changes in the organization of healthcare, in the delivery of healthcare, and in medical treatments and opportunities. Nursing structure was reviewed in the Salmon Report (1966) and nursing practice in the Briggs report (1972). However it was not until 1979 that the government acted on the recommendations of Briggs, and it was not until 1983 that the UK Central Council for Nursing, Midwifery and Health Visiting (the UKCC) was established.¹⁶¹

3. The beliefs that nursing roles required (i) systematic knowledge which was founded on evidence based practice and research, and (ii) clinical decision making skills, became accepted as part of government policy thinking following the 1983-85 review of nursing education by the Judge Committee. An outcome of the latter was 'Project 2000', an initiative of the UKCC. In the 1986 report of Project 2000 detailed and wide-ranging proposals were made concerning the content, structure and delivery of nurse education; proposed were (i) programmes of 3 years duration leading to a Diploma in Higher Education (ii) programmes to have an initial common foundation programme followed by a choice of specialisms in adult nursing, child nursing, mental health nursing and learning disabilities nursing; the theoretical ('academic') proportion of these 3 year pre-registration programmes was increased to 50%, still making it possible for the practical (placement) component which made up the other 50% to meet the EU minimum duration requirement of 4600 hours (iii)

¹⁵⁹ There were many different occupations which came under the term 'professionally qualified non-medical occupations'. Nursing was selected as an example mainly because (i) this was by far the largest of these occupations (accounting for c. 60% of the NHS professionally qualified non-medical staff over the reference period – source: 'NHS HCHS and General Practice Workforce Statistics' The Information Centre: General and Personal Medical Services; Medical and Dental Workforce Census; Non-medical Workforce Census; Available at:

<http://www.hscic.gov.uk/searchcatalogue?productid=13332&q=monthly+nhs+hospital+and+community+service+workforce+statistics&sort=Relevance&size=10&page=1#top> Accessed February 2014); (ii) c. 90% of the contracted quantities of commissions in the IOR between the NHS Education Commissioner and Middlesex University were for programmes in nursing; and (iii) c. 70% of the GM's non-medical commissions were for programmes in nursing.

¹⁶⁰ The term education is used throughout this dissertation to refer to education and training.

¹⁶¹ The UKCC became the single statutory and regulatory body (SRB) for the allied health occupations and replaced previous separate SRBs such as the General Nursing Council.

students to have supernumerary status¹⁶² (iv) development of links between the existing Colleges of Nursing (mostly based on hospital sites and attached to particular hospitals) where nursing education was carried out with the higher education sector.¹⁶³ These proposals were accepted by the government in 1988. Thus the purchaser provider split envisaged in the 1989 White Paper would take place at the same time as the implementation of Project 2000.

The new statutory and regulatory body, the UKCC, and its successor body, the Nursing and Midwifery Council (the NMC)) maintained oversight and control of entry to the professional registers for the allied health occupations (including nursing). This control included maintaining close control of the relevant education 'products'; the discretion which education providers had on their 'product' was relatively limited and consequently so too was the ability of education providers to differentiate themselves from each other on the basis of the intrinsic characteristics of their product offering. For example, the amount of control exercised by the UKCC and its successor body the NMC was reflected in the initiative by the UKCC in 1999 to review the implementation of Project 2000 in terms of the 'fitness for practice' of newly qualified entrants to the nursing register and in the outcomes of that review.¹⁶⁴ These outcomes included a subsequent NMC review of standards of nursing education and the issuing in 2004 of new 'standards'.¹⁶⁵ Later, in 2007, at the initiative of the DH¹⁶⁶ a further major review was conducted by the NMC¹⁶⁷ and new standards issued in 2010.¹⁶⁸ Under the NMC standards issued in 2010 the minimum requirements for each of the 10 standards set out for the education 'product' was specified in considerable detail and the discretion allowed to education providers on the nature and production of the product was relatively limited. The areas covered by the standards included education outcomes; the structure, design, content, and delivery of

¹⁶² Underlying this proposal was the belief that the training of nurses had become too dominated by the exigencies of service (i.e. by the requirements of healthcare delivery) and consequently that the development of a core professional capability for the modern nurse, which was informed by best practice and based on a rational foundation of systematic knowledge and its application, remained an ideal which was rarely attained. With increasing as well as new demands being made on the nurse, it was concluded in the interests of the future quality of healthcare provision, that the education and development of the nurse had to be prioritised. As a means of achieving this, it was recommended that a separation be made between service and the education and training of nurses. The independence of the 'trainee' from the specific service settings in which they would continue to have the practical components of their training programmes was achieved by changing their status to that of students: as students the 'trainees' were to be regarded, formally at least, as supernumerary to the healthcare workforce.

¹⁶³ UKCC (1986) 'Project 2000: A New Preparation for Practice', UKCC London, available at: <http://www.nmc-uk.org/Documents/Archived%20Publications/UKCC%20Archived%20Publications/Project%202000%20A%20New%20Preparation%20for%20Practice%20May%201986.PDF> Accessed March 2013

¹⁶⁴ UKCC (1999) 'Fitness for Practice: The UKCC Commission for Nursing and Midwifery Education'. Available at: <http://www.nmc-uk.org/Documents/Archived%20Publications/UKCC%20Archived%20Publications/Fitness%20for%20Practice%20and%20Purpose%20The%20UKCC%20Commission%20for%20Nursing%20and%20Midwifery%20Education%20Report%20September%201999.PDF> Accessed February 2014

¹⁶⁵ NMC (2004) 'Standards of proficiency for pre-registration nursing education'; available at http://www.nmc-uk.org/documents/standards/nmcstandardsofproficiencyforpre_registrationnursingeducation.pdf Accessed March 2013

¹⁶⁶ Department of Health (2006) 'Modernising nursing careers – setting the direction'; available at: http://www.dhsspsni.gov.uk/modernising_nursing_careers-2.pdf Accessed February 2014

¹⁶⁷ NMC (2007) 'Nursing: Towards 2015'; available at: <http://www.nmc-uk.org/Documents/ResearchPapers/Nursing%20towards%202015%20full%20report%20.pdf> Accessed March 2013

¹⁶⁸ NMC (2010) 'Standards for pre-registration nursing education'; available at: <http://standards.nmc-uk.org/PublishedDocuments/Standards%20for%20pre-registration%20nursing%20education%2016082010.pdf> Accessed February 2014

programmes; the selection, admission, progression, assessment and completion of students; quality assurance processes; and resource requirements. All this remained the case for the whole of the reference period, 1994 – 2013.¹⁶⁹

Thus the detailed specification of the requirements for nurse education which resulted from Project 2000 and which were enforced through the regulatory authority given to the UKCC and its successor body the NMC, also meant further underlying conditions for the existence of a monopsony or M_G were fulfilled: the condition regarding the substitutability of suppliers was fulfilled since the product of the suppliers in the M_G had become relatively ‘well specified’. From the perspective of the GM, the sellers (education providers) thereby became more readily substitutable for each other.¹⁷⁰

There was also a potential substitutability of sellers’ outputs generally: instead of newly educated UK trained healthcare professionals, healthcare providers could source some equivalent new labour resources from outside of the UK or EU, especially if it could be shown these were for occupations where suitably qualified and skilled labour was in short supply in the UK.

A further condition for monopsony and M_G - regarding no alternative buyers becoming available - was also fulfilled because the nature of the well specified product entailed in its production the use of specialised resources, mainly academic staff, for which there were no alternative economic deployments and which over a given time horizon were not economically amenable to transformation (e.g. from retraining) for alternative employment within the suppliers’ organizations. Consequently the specialised nature of these resources of the suppliers also meant that over a given time horizon the exit costs of those suppliers from the M_G could be relatively high and exceed the opportunity costs to them of staying in the M_G . The implications this had for the suppliers’ power dependence relations in their IOR with the GM would depend to some extent on the proportion of their activities that those suppliers had bound up with the M_G .

As a consequence of the above, both the individual supply curves and the aggregate supply curve in the M_G would be upward sloping and relatively inelastic. This fulfilled a further underlying condition for the existence of monopsony or M_G .¹⁷¹

¹⁶⁹ Although the education product was well specified and closely controlled by the relevant regulatory body, this did not mean that the specification itself remained the same over time. Rather, the onus was on education providers to ensure their provision was developed appropriately when any changes to the specification of the education product were made.

¹⁷⁰ It is assumed here that the more standard and detailed the specification of the education ‘product’ the less opportunity there was for suppliers (education providers) to differentiate their offerings. However, a perfect substitutability of all suppliers for each other is not assumed here. Suppliers in virtue of their geographical location relative to placement opportunities might still have enjoyed barriers to entry to at least some of the other potential suppliers, at least in the short run and also even to some of those potential suppliers located in the same geographical region covered by the M_G . The existence and strength of such barriers to entry would have probably depended on the overall size of the region, the transportation links within the region, the overall number of suppliers in a given region and their location relative to each other.

Suppliers could also have differentiated themselves in the recruitment market for potential students on the basis of the perceived reputation of their university overall. Potentially this could have translated into recruitment of students who were more likely to complete their programmes of study. This in turn would have led to higher outputs from a given level of funding and consequently better VFM from the standpoint of the NHS education commissioner.

¹⁷¹ A supplier, especially if it is an organization with resources to sustain it over the short run, can operate simultaneously in monopsonistic and non-monopsonistic markets. This does not mean necessarily that the monopsony markets in which the supplier operates thereby lose their character as monopsonies, albeit these

4.1.3 UK Higher Education (UK HE)

Developments in UK HE also had a bearing on the emergence of the M_G, in particular on the supply side.¹⁷² Two of the recommendations of Project 2000 were (i) nurse education be moved from the existing Schools of Nursing (mostly based on hospital sites and attached to particular hospitals) to separate autonomous Colleges of Health (so that the needs of the health service did not continue to dominate the content of education and its delivery) and (ii) the Colleges of Health should develop links with the HE sector (so that the curriculum had a stronger academic component). The appropriateness and feasibility of these recommendations depended upon there being a sufficient number of suitable organizations in the UK HE sector which would have the willingness to engage with the education requirements of the NHS non-medical occupations workforce. This indeed was the case as a result of events over the preceding 30 years which had taken place in UK HE.

Following the report of the Anderson Committee in 1960 which led to the introduction of student maintenance grants,¹⁷³ and the Robbins Report¹⁷⁴ in 1963 which led to the creation of new HE organizations, the HE sector in Great Britain expanded five fold in student numbers over the period 1963 to 1995.¹⁷⁵ The complexion and nature of organizations which made up the HE sector also changed. With the main aim of providing an effective response to the manpower needs of industry, in 1966 the government formulated a plan for, and later decided to implement, a binary system of higher education, comprising universities in one part of the system (including, as recommended by Robbins, the CATs which were relabelled as 'universities', and the creation of an additional 17 new 'plate glass universities'), and mainly 'Polytechnics' in the other. Following the 1966 White Paper, 'A Plan for Polytechnics and Other Colleges',¹⁷⁶ 30 'Polytechnics' were created over the period 1969-1973 out of mergers of 60 existing technical, commercial and art colleges in the further education sector. These organizations formed one side of a binary division of the HE sector with 'universities' on the other side of the binary divide. It was envisaged that universities would continue as largely autonomous organizations '*whose primary purpose was the pursuit and transmission of knowledge and culture through research, scholarship, and teaching*'.¹⁷⁷ Polytechnics primarily would be teaching institutions and that '*the purpose of any research* (carried out within the polytechnics) *was to support the teaching function*'.¹⁷⁸

would not be 'pure monopsonies'. The specialist nature of the supplier's resources and the relative costs of transforming those resources so these could be economically deployed elsewhere (within a given time horizon) might be such that the conditions for monopsony (in the monopsony market) continue to prevail.

¹⁷² A summary of relevant key events in HE is given above in Table 5(iii).

¹⁷³ Anderson C. 1960 'Grants to Students: report of the Committee appointed by the Minister of Education and the Secretary of State for Scotland' Cmnd 1051, HMSO London

¹⁷⁴ 'The Robbins Report' Cmnd 2154, HMSO London 1963; see also 'The Robbins Report' Memorandum by the Chief Secretary to the Treasury and Paymaster General to the Cabinet of HM Government C. (63) 173 London 30th September 1963 Available at: <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-129-114-c-173.pdf> Accessed 31st March 2013

¹⁷⁵ Archive 5 GB HE Statistics 1963-2012. Sources: HESA; The Robbins Report (1963), *ibid*. Statistics for Great Britain only (rather than for the UK) were available for 1963. Consequently Great Britain was used as the baseline in this comparison and the later data from HESA were selected accordingly.

¹⁷⁶ Department of Education and Science (1966) 'A Plan for Polytechnics and other Colleges'; available at <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-129-125-c-70.pdf> Accessed February 2014

¹⁷⁷ Booth C. (1999) 'The Rise of the New Universities in Britain' pp 106-123 in 'The Idea of a University' eds. Smith D. and Langslow A. K., Jessica Kingsley Publishers, London, p. 108

¹⁷⁸ Pratt, John (1997) 'The Polytechnic Experiment' pp 183-184 SHRE and Open University Press, Buckingham

The binary system operated from 1969 to 1988/1992 and was the UK HE sector context within which the M_G was initiated and established. According to Pratt (1997)¹⁷⁹ the polytechnics transformed the academic quality of technical and vocational education that had previously been available. To some extent this was probably due to the impact of the CNAA on the polytechnics particularly through the processes of validation and revalidation of the polytechnic degrees: university level standards were set and enforced by the CNAA and this also enabled the dissemination of good practice on academic standards in the polytechnics.¹⁸⁰

Pratt (1997) also claimed that the thriving of the polytechnics under the binary system brought about some other lasting and important changes in the UK HE sector and to UK HEIs generally (i.e. to universities as well as to polytechnics), changes which endured beyond the eventual abolition of the binary system itself. These changes included greater expansion of the HE sector,¹⁸¹ and greater access to higher education.¹⁸² According to Pratt (1997) the polytechnics were also influential on the whole HE sector (i.e. including the universities) in the development of curricula and pedagogy that was more responsive to needs arising from changes in industry and technology, and the consequent impact of these changes on occupations, occupational structures and social mobility; polytechnics pioneered and established many new subject areas as appropriate for higher education and for study at degree level.¹⁸³

Context in 1989 of UK Higher Education: by 1989 when the government was considering the options for NHS workforce education the UK HE sector had developed in two important respects. Firstly, there were now a sufficient number of potentially suitable organizations in the HE sector for realising the ambitions set out in the Project 2000 report for a more academic curriculum founded on evidence based practice and research. It was recognised at the time that the Colleges of Health might themselves eventually be merged into Higher Education organizations - the 1988 Education Reform Act had taken the Polytechnics out of Local Authority control and made these into Higher Education Corporations (HECs) and it would not be long before the HECs became designated as 'new universities' under the Further and Higher Education Act 1992.¹⁸⁴

¹⁷⁹ Pratt, John (1997) *ibid*

¹⁸⁰ 'With more than a thousand academics involved in its subject boards, the CNAA was particularly important as a mechanism for spreading good practice. Above all it encouraged polytechnics to adopt a self-critical culture which became embedded in their own processes for regularly evaluating their courses against students' needs'. Booth C. (1999) *ibid* p. 109

A further factor was the gradual influx of a new generation of more highly academically qualified academic staff in the Polytechnics: over the 1970s and 1980s these gradually came to replace most of the academic staff inherited from the regional and area technical colleges and probably helped in the picking up by the polytechnics of the good practice being transferred from the universities through the CNAA validation processes.

¹⁸¹ Between 1965 and 1992 the number of students in the polytechnics had grown five-fold, twice the rate of growth in the universities. Pratt (1997)

¹⁸² According to Pratt (1997) the polytechnics functioned to increase access to higher education courses from non-traditional students, including minority ethnic and mature students, and 'non-standard entrants'. In 1991 the polytechnics had twice as many part-time students as the universities and nearly four times as many sandwich students. In effect, the polytechnics functioned in such a way as to enable the UK HE system to become a mass system. Pratt (1997)

¹⁸³ Innovation in curricula relevant to changes in allied health occupations, occupational structures and medical technologies took place in universities long before the advent of polytechnics; for example the first degree in nursing was established in 1960 by the University of Edinburgh. Thus Pratt's argument about the influence of the polytechnics on curricula is probably more relevant here to the diffusion of innovation throughout the HE sector rather than about the genesis of that innovation.

¹⁸⁴ Meerabau (2001) noted in the initial implementation of Project 2000 (c. 1988/89) that neither the Secretary of State for Health nor the NHS Management Board were prescriptive about the links between the Colleges of

Consequently the role of the District Health Authorities ('DHAs'), which in 1989 straddled both the purchasing of healthcare and the management of hospitals which in turn were the providers of education, was to be changed: the DHAs would continue as purchasers of education but they would no longer also be involved in its provision. Subsequently, in 1991 when the RHAs began to take over from the DHAs the purchasing of NHS education, the purchaser provider split in NHS workforce education was implemented: the Colleges of Health had become autonomous, some had already been merged with HECs (shortly to become 'new universities'), and the remainder were in the course of being merged.¹⁸⁵

Secondly, beginning in the 1960s, the role of HE in the UK economy was seen by successive governments as having an increasing importance for the economy. By the late 1980s, the five-fold increase in UK HE which had taken place over the course of the previous 25 years had transformed the UK HE sector into a mass higher education system which, from the standpoint of government, had become more strategic to the UK economy, politically more visible and much more substantial in its requirement for funding; *'within the knowledge-based economy the connection between the HE institutional sub-system and policy goals of economic growth became sharper'* (Enders et al 2013). Consequently, as with the NHS sector, the UK HE sector became a candidate for NPM approaches to its management. This required two things:

(i) The universities were to be transformed so that they became organizations that were amenable to internal management and external control. Under the contractualism of PAT, the HE sector was represented as an input-output system which was reducible to an economic production system. However, to make the HE sector amenable to NPM approaches, changes were needed to the key constituent organizations of HE, viz. the universities. Under an NPM programme, universities were to be changed from being bottom heavy with *'low potency for collective action'* to *'strategic organizational actors with capacities for managerial self-regulation and internal control'* (Enders et al 2013, p. 9). Under NPM *'universities were supposed to act as social entities that possessed a ... degree of autonomy ... with self-interested goals as well as with rational means, commanding independent resources and visible boundaries'*. The underlying assumption was that, within an NPM framework the application of the new tools of governmental control would increase organizational performance.

(ii) Competition between the transformed universities was to be engendered. *'The installation of relations of competition in HE has been seen as a way of increasing productivity, accountability and control, and of improving quality'* (Olssen & Peters 2005). *'Increased competition (in HE) is meant to increase responsiveness, flexibility and rates of innovation ... increase diversity of what is produced and what can be chosen ... enhance productive and allocative efficiency ... improve the quality and volume of production ... strengthen accountability [of HEIs and of the HE sector] to students, employers and government'* (Marginson 1997, p. 5). Implementation of an NPM approach by government to management of the UK HE sector commenced in 1988: following the 1988 Education Reform Act, the UK government introduced the principle of 'contractual funding' into the HE sector, i.e. *'that the public funds allocated to universities/polytechnics/colleges are in exchange for the*

Health and HEIs. It was a couple of years later, when the those links had developed and were seen to be working that mergers between the Colleges and HEIs became the actual direction of policy. Source: Meerabau, E. (2001) *'Back to the bedpans: the debates over preregistration nursing education in England'* in Journal of Advanced Nursing 34(4) pp 427-435

¹⁸⁵ Burke, L.M. (1995) 'Political principles in action: a critical analysis of *Education and Training: Working Paper 10* and its implications for nurse education' in Nurse Education Today 1995 (15) pp 381-389; Walsh, D. (2013) *'Middlesex University and the NHS Education Commissioner: A History 1994-2013'*, p. 11 – Archive 85.

*provision of teaching and research and are conditional on their delivery ...*¹⁸⁶ Thus the possibility of contract based IOR in the HE sector was created just as it was for the NHS internal market.

A further condition for the establishing of a monopsony or M_G – the existence of many sellers in formal contract-based relations of exchange - had thus also been satisfied: with c. 100 HE organizations across the UK willing to participate in NHS education, there were many potential sellers in each of the 14 RHA regions.¹⁸⁷

4.1.4 A Confluence of Events, a Critical Juncture and an M_G Outcome

The events described in the preceding three sections came together in the late 1980s and functioned to bring about the establishment of the M_G . In summary, these events were associated with perceived functional, educational, organizational, and inter-organizational requirements:

- In regard to functional requirements: advances in healthcare and in the expectations of healthcare in the decades following the establishment of the NHS engendered a development in the perceived requirements for, and in the expectations of non-medical roles, especially nursing.
- In regard to education requirements: the preparation for practice provided by the Schools of Nursing attached to hospitals came to be seen as inadequate and it was concluded in government committees in the 1970s and 1980s that ‘modern’ healthcare roles such as nursing required systematic knowledge and evidence based practice.
- In regard to organizational requirements: to ensure the delivery of the education provision of the requisite scope and balance it was decided by government that the Schools of Nursing which hitherto were part of the employer healthcare organizations, be transformed into independent Colleges of Health. At the same time the independence of the Colleges of Health from the day to day operational pressures of the service was also extended to their students with a change in the status of the latter from being part of the staff establishment to being supernumery. To develop education provision of the requisite quality and particularly to ensure that curricula were evidence-based, it was envisaged that the Colleges of Health would develop close relationships with HEIs. In the event the latter quickly were seen to be so successful that government decided it would be helpful that all Colleges eventually were merged into existing HEIs.
- In regard to IOR requirements: reflecting the emergent NPM approach of government to the public sector it was simply assumed in WP10 (1989) that the principle of ‘contractual funding’ should apply to the education provision and that there should be a purchaser-provider split. Both the principle and the way it was to be applied were compatible with the arrangements and objectives of the internal market about to be introduced into the NHS and, as noted above, the principle had already been introduced into the HE sector in the previous year (1988). Thus the NHS-HE inter-sector IOR that would eventually develop were also envisaged as based on market based arrangements to promote competition and (it was assumed) bring about greater efficiency in education outputs.

¹⁸⁶ DES (1988a and b) letters from the Secretary of State to the Chairmen of newly created funding agencies (the Universities funding Council and the Polytechnic and Colleges Funding Council, cited by Williams, G. (2004), p. 246

¹⁸⁷ Sources: National Audit Office (2001); BMP JM Consulting Report (2003) – Archive 28; BMP JM Consulting Review – Archive 29; BMP Agreement 2009 – Archive 30; CoDH (2006) Briefing on the current crisis in nursing education – Archive 5; Walsh, D. and Jelfs, E. (2015) ‘Beyond BMP: Where next for the funding of nursing, midwifery and AHP pre-registration education in England?’ – Archive 145.

In effect, WP10 functioned as the critical juncture which brought together the relevant preceding events in the NHS and HE sectors as well as the outcomes of policy proposals relating to the development of non-medical workforce education. The establishment of what became the M_G in non-medical education was the direct result of the decisions, based closely on WP10, which were taken shortly thereafter and given legislative effect under the NHS and Community Care Act 1990.

It is not being claimed here that government policy makers intended that the institutional arrangements to ensure a purchaser-provider split be '*government monopsonies*' as such; the term 'monopsony' did not appear in any of the policy papers at that time and the first reference to the term 'monopsony' in relation to the UK government's role in higher education that the writer was able to find was made some years after these events, in Williams, G. (1997) cited by Brown, R. with Carasso, H. (2013). It seems more likely it was a consequence unintended by government policy makers that the NHS-HE inter-sector institutional arrangements actually established met all of the underlying conditions defining 'government monopsonies'. However, according to Williams (1997) the exercise of power by government which happened to be '*near-monopsonistic*' was intended: commenting on the letters from the Secretary of State to the Funding Councils (DES 1988a, DES 1988b) Williams stated: '(The letters were) *quite explicit that higher education institutions were henceforward to be seen as selling teaching ... services to the government which was the near monopsonistic purchaser of these services. This transfer of financial power from the suppliers of academic services to a proxy consumer was extremely far reaching*'.¹⁸⁸

¹⁸⁸ Williams, G. 1997, p. 283.

4.2 Origins of the Inter-organizational Relationship (IOR)

The NHS Education Buyer/Commissioner (the ‘GM’): the RHAs had been established in 1973 as part of an extensive reorganization of the NHS. The main functions of the RHAs were to oversee the NHS Trusts (which began to be established from 1991), the DHAs, and the Area Health Authorities, in the provision of healthcare in the NHS. In discharging this responsibility the RHAs were to provide direction and leadership to the DHAs and Trusts and to ensure that local systems of healthcare operated effectively. In 1991 the RHAs took over from the DHAs the funding and responsibilities for NHS workforce education. Until 1996 the GM for the NHS area within which MU was located was the RHA (North Thames).

Middlesex Polytechnic (MP)/Middlesex University (MU): a summary of relevant key events is given below in Table 5(iv).

Caption to Table 5(iv)

- Summary of events from the standpoint of MU which led up to the formation of the IOR
- MU sought growth and diversification into new academic subject areas, objectives which it had pursued since its formation as an HEI in 1973.

Table 5(iv): Origins of the IOR - Middlesex Polytechnic/University Events & Timeline	
Middlesex Polytechnic established	1973
Trent Park College of Education merged with Middlesex Polytechnic	1974
New College of Speech and Drama merged with Middlesex Polytechnic	1974
The College of All Saints, Tottenham merged with Middlesex Polytechnic	1978
Middlesex Polytechnic launch BA in Nursing	1991
Middlesex Polytechnic becomes Middlesex University (‘MU’), one of 35 ‘new universities’	1992
London College of Dance merged with Middlesex University	1994
MU negotiate with RHA merger of North London College of Health & takeover of NHS education contracts	1994-1995

Middlesex Polytechnic (MP) was established in 1973 as one of the 30 polytechnics created over the period 1969-73. MP itself was typical of the ‘new’ polytechnics both in its creation out of the amalgamation of existing colleges and technical institutes, and in the scope and nature of its portfolio of subjects and disciplines. MP grew through the 1970s with the merger of 3 further colleges. During the late 1980s MP senior management first became aware of the potential for involvement in nurse education arising from the implementation of Project 2000. In 1990/91 MP initiated and launched its own degree in nursing (in conjunction with Barnet College). Subsequently, MP tendered, in competition with other universities, to the relevant RHA for its region, for non-medical education to the NHS. The tendering process was initiated, designed and managed by the RHA and was a process which was replicated in all RHA regions. The objective of the RHAs was to secure the merger of each of the existing the Colleges of Health with universities whose tenders were successful. However, MU (which had tendered to merge with Barnet College) was not successful in its tender. However, a tender from another HEI which had initially been successful subsequently failed in the ensuing negotiations about merger with the relevant College, the North London College of Health Studies (NLCHS). Subsequently, in c. 1994, MU was approached by the NLCHS about the possibility of a merger.

MU proceeded to negotiate with the RHA about a merger with the NLCHS; those negotiations concluded in a signed agreement of merger; the NLCHS became part of MU as a ‘Faculty of Health Studies’ and MU took over the NHS contracts. Thus the IOR between the NHS Education Buyer (the ‘GM’) and MU (‘the IOR’) became established and began its existence under conditions of M_G .

4.3 IOR Context 1995 – 2013: Persistence of the Conditions of M_G

The provision of non-medical education by HEIs to the NHS continued to be made mostly under conditions of M_G on a quasi-market basis for the whole of the reference period 1995-2013:

1. There was a single education buyer (the GM) whose standing was protected by government regulation and whose resources came entirely from the state.¹⁸⁹
2. The education product for pre-registration education (which accounted for c. 90% of the activity by volume and value in the M_G) continued to be 'well specified' both in terms of content and delivery, by the relevant regulatory body; consequently from the buyer's standpoint different suppliers continued to be substitutable for each other.¹⁹⁰ The potential substitutability of sellers' outputs generally also remained, particularly in terms of the potential for healthcare workforce employers to source registered non-medical professionals from outside of the UK.¹⁹¹
3. No alternative buyers for outputs from the specialised resources (mainly academic staff) of the suppliers became available. The potential cost of the transformation (via retraining) of those resources so that they could be redeployed by the suppliers to alternative uses continued to be uneconomic. Under their IOR contracts with the GM, sellers continued to be barred from charging tuition fees to their students;¹⁹² thus, the entire income to sellers, such as MU, from their NHS contracts activities continued to come from the GM.
4. As a consequence of the persistence of the conditions under 2 and 3 above, the individual supply curves and the aggregate supply curve in the M_G continued to be upward sloping and relatively inelastic over the reference period.
5. There were many sellers as well as many potential sellers in the geographic area defined for the GM over the course of the reference period.¹⁹³ This remained the case even when GM restructurings took place and the geographic area covered by the GM was redefined; for example, in 2012 for the region applicable to the IOR there were c. 12 potential higher education providers of adult nursing pre-registration programmes and 9 actual providers.
6. Processes determining contracts, outputs and prices were in their final stages usually conducted between the GM and individual sellers. The exceptions to this occurred in the later part of the reference period when from 2009 the sellers acted in concert in processes of price determination.¹⁹⁴ The effect of this was that on dimensions of the price component of the IOR, the conditions under which the IOR existed became those of bilateral monopoly. However, as will be discussed below in Chapter 6, from 2011 these conditions of bilateral monopoly began to be contested by the GM.

Finding (1): The IOR investigated in the inquiry originated under conditions of M_G and continued to exist mostly under those conditions during the reference period.

¹⁸⁹ Sources: National Audit Office (2001); Department of Health (2006a); NHS London (2007); GM Presentation to LDHG (March 2011) – Archive 130

¹⁹⁰ Sources: NMC (2004); NMC (2010). As stated earlier, perfect substitutability between suppliers within a given geographic area is not being claimed here. What is being claimed is that the substitutability of suppliers remained relatively high throughout the reference period.

¹⁹¹ Sources: Buchan, J. (2012); Buchan, J. and Seccombe, I. (2011); Buchan, J., Seccombe, I. and O'May, F. (2013).

¹⁹² Sources: MU NHS Contracts 1997-2013 – Archives 32 – 38.

¹⁹³ Sources: National Audit Office (2001); BMP JM Consulting Report (2003) – Archive 28; BMP JM Consulting Review – Archive 29; BMP Agreement 2009 – Archive 30; CoDH (2006) Briefing on the current crisis in nursing education – Archive 5; Walsh, D. and Jelfs, E. (2015) 'Beyond BMP: Where next for the funding of nursing, midwifery and AHP pre-registration education in England?' – Archive 145

¹⁹⁴ See Chapter 6, power games 2 and 3.

Chapter 5 IOR Key Outcomes, Performance and Stability: Findings and Analysis

5.0 Introduction

The purpose of this Chapter is to present and analyse the empirical findings in regard to research question 2 of the inquiry¹⁹⁵, viz.

2. What were the key outcomes and consequences for IOR in/stability over the reference period in each of the main components of the IOR, viz. contracts, outputs, price and performance?

The IOR stability concept was operationalised on 14 dimensions of IOR key outcomes and performance, defined above in Table 1.¹⁹⁶ IOR stability was assessed on each of the 14 dimensions on the basis of the criteria defined above in Table 2.¹⁹⁷ The main findings of this inquiry on the stability over time of the IOR between the GM and MU are summarised above in Table 3(i).¹⁹⁸ In this chapter these findings on the stability of the IOR are presented and analysed at three levels of the IOR, dimensions, components, and overall. To facilitate the presentation of the analysis the dimensions were grouped under their relevant IOR component, (i) contracts; (ii) outputs; (iii) price; (iv) performance.

5.1 Contracts Key Outcomes and Stability Impacts

5.1.1 Background

Over the whole of the reference period, 1995 – 2013, MU had a contract with the NHS Education buyer/commissioner (the GM) for its pre-registration education provision. Several successive contracts were involved; this was mainly because of re-organizations of the NHS during the period and consequent changes in its structures of provision and commissioning, including education commissioning. The terms within existing contracts also gave rise to new successor contracts, whether because the existing contracts had a limited duration which was about to expire, or because there was a contract review requirement.

Throughout the reference period, the overall structures and detailed contents of the contracts were initiated and designed by the GM. The contracts were locally drawn and did not originate in national contracts or framework agreements.¹⁹⁹ In terms of contract structures/‘heads of terms’, the main changes to the framework of the IOR contracts were as a result of GM initiatives. Details of the GMs for MU and their dates are in Archive 6. Also in Archive 6 are details of each of the nine NHS contracts for pre-registration education held by MU over the reference period; these details include the identity of the GM and the periods in which each contract had effect. Copies of the contracts are in Archives 32-39. Copies of national framework agreements are in Archives 40-41.

¹⁹⁵ The empirical findings in regard to research questions 3 and 4 of the inquiry are presented in the following Chapter, Chapter 6.

¹⁹⁶ See supra chapter 3, Table 1.

¹⁹⁷ See supra chapter 3, Table 2.

¹⁹⁸ See supra chapter 3, Table 3.

¹⁹⁹ A National Standard Contract (NSC) was established in 2006. In 2010 the NSC was developed as a National Standard Education Framework Agreement (NSEFA). The intention of the NSC and NSEFA was to provide a framework that would be adopted by local GM areas/regions throughout the UK. However neither the NSC nor the NSEFA were accepted by the GM and consequently some important provisions in them were never implemented for the IOR. Details of what was stipulated on each of the dimensions under the NSC and the NSEFA were sourced in Archive 7.

5.1.2 Definitions of Contracts Key Outcomes Dimensions

Under the contracts component of the IOR, the key outcomes were defined on 4 dimensions, comprising:²⁰⁰

1. Duration was the period for which the current contract was in force.

2. Termination referred to the ways in which the contract could be brought to an end.

3. Contract Compliance – Information Requirements were the information reporting requirements under the contract, including their content and frequency.

– **Management and Review** included the content and processes of contract monitoring, management and review, e.g. contract performance indicators, quarterly and annual reporting requirements, action plans and review frequency. There was some overlap between the requirements for management and review and for information.

4. Placement Responsibilities were about the responsibilities for the obtaining of placements, their planning, organization and management, and how these responsibilities were distributed between the organizations in the IOR.

Shown below under each dimension are the relevant stability impact indicator, a summary of the key outcomes identified, and an assessment of the impact of the key outcomes on IOR stability.²⁰¹ To enable analysis of changes over time, the key outcomes for each dimension were ordered chronologically. The same format of presentation is also maintained in the sub-sections below for the other IOR components. Fuller details of the key outcomes for most of the dimensions as they appeared in the various contracts for the IOR are in Archive 6.

5.1.3 Contracts Key Outcomes Stability Impacts

1. Duration:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
1	Duration	What was remaining duration of contract? x years	R	x≥2	x<2	x<2	If x<2: one party has risk of costlier exit from the IOR. IOR 1995-1999 contracts stipulations set as stability baseline - minimum remaining duration was 2 years at time of annual renewal of these contracts.	2 years minimum required by supplier to establish substitute activity to maintain outputs & cover fixed costs.	13; 14

²⁰⁰ As stated in Chapter 3, a total of 14 *dimensions* were defined, these relating to the IOR key outcomes on the 4 components - contracts, outputs, price, and IOR performance. All 14 *dimensions* were defined in accordance with the definitions of these in the contracts, so that the *dimensions* were grounded in the empirical reality of the IOR. From a review of the 'heads of terms' in all of the contracts, it is believed that those which were most relevant to the IOR key outcomes have been included here. The main omissions were terms about insurances, disputes and jurisdiction. However, none of these terms or changes that were made to them gave rise to issues which remained unresolved or which had a material impact on the IOR and its stability.

Since the contracts between the GM and MU were the mechanisms governing the relations of exchange in the IOR then all of the 14 *dimensions* could have been classified under a 'contracts' component. However, the processes in the IOR relating to outputs, price and performance were sufficiently distinctive to merit a typology of the IOR which facilitated the analysis of these individually as well as in relation to each other.

²⁰¹ These analyses were informed by interpretations of the contracts made by the writer. The contracts had generally been well drawn so it is thought that the interpretations were reliable. In making these interpretations the writer was able to draw on written legal opinions obtained on the 2008 and 2012 contracts as well as on the 2010 NSEFA. For reasons of 'legally privileged' confidentiality, none of these legal opinions are quoted from directly. Sources of data for *dimensions* 1-4: IOR contracts and contract documentation and interviews with MU management; copies of the contracts were sourced in Archives 32-39.

Contracts throughout the reference period had a definite duration. Duration lengthened in the first 10 years of the reference period, from an annually rolling 3 years in 1995/96 to 5 years for the period 2000/01 – 2005/06. In a period of restructuring of the NHS which directly affected the GM, there followed 3 successive ‘interim contracts’ each of 1 year’s duration for the years 2005/06-2007/08. The subsequent 2008/09 contract was for 5 years, extendable by 1 year on up to three occasions; the 2012/13 contract had duration of 3 years, extendable by one year on up to two occasions. In all instances it was the GM which determined the duration clauses stipulated in the contract. Given the duration of the contracts as stated above the stability impact assessments were:

S = Stable; TRI = Threatening entry to range of instability; U = Unstable		Stability Impact over Time																	
IOR Key Outcomes: COMPONENTS & Dimensions		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
1	Duration	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	S	S	S	TRI	TRI

2. Termination:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable		Stability Impact																	
Key Outcomes Dimensions		Stability Impact Indicators		Stability Indicator Type: Performance Risk (R); Performance Outcome (O)		S		TRI		U		Underlying Assumptions, Sources of Indicators & Indicator Measurements		Rationale for Stability Indicator Measurements		Relation between Dimensions & Indicators			
2	Termination	Did parties have equal rights to terminate? Excepting breach, notice needed ≥ 2 years? Y/N		R		Y		N		N		If N: one party has risk of costlier exit from the IOR. IOR 1995-1999 contracts stipulations set as stability baseline - minimum remaining duration was 2 years at time of annual renewal of these contracts.		2 years minimum required by supplier to establish substitute activity to maintain outputs & cover fixed costs.		13; 14			

Until 2004/05, contracts could be terminated only in the event of a material breach of the contract which was not remedied within a specified time. In the 2005/06, 2006/07 and 2007/08 contracts either party could terminate on written notice – no period of notice was specified. In the 2008/09 and 2012/13 contracts either partial or full termination could be effected on one academic year’s notice being given by either party in the event that some or all of the programmes ceased to be offered or required.²⁰² In all instances it was the GM which determined the termination clauses stipulated in the contract. Given the conditions of termination in the contracts as stated above, in particular the various notice periods (if stipulated) that were required for termination, the following stability impact assessments were made:

S = Stable; TRI = Threatening entry to range of instability; U = Unstable		Stability Impact over Time																	
IOR Key Outcomes: COMPONENTS & Dimensions		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
2	Termination	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

3. Contract Compliance:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable		Stability Impact																	
Key Outcomes Dimensions		Stability Impact Indicators		Stability Indicator Type: Performance Risk (R); Performance Outcome (O)		S		TRI		U		Underlying Assumptions, Sources of Indicators & Indicator Measurements		Rationale for Stability Indicator Measurements		Relation between Dimensions & Indicators			
3	Compliance - Information; Management & Review	Was there Increased/increasing burden of compliance requirements compared with burden at beginning of participation in the IOR? Y/N		R		N		Y		Y		If Y: supplier costs of compliance increase with risk of negative returns from IOR to supplier. IOR 1995-2004 contracts compliance burdens set as stability baseline.		Compliance burdens under 1995-2004 contracts similar to compliance burdens under HEFCE contracts and norms for HE sector.		12; 13; 14			

²⁰² In the event of termination students already in the system that would be completing their programmes after the termination dates would continue to be funded. These stipulations regarding the ‘consequences of termination’ appeared in all contracts throughout the reference period.

Contract Compliance – Information: From 1995/96 to 2007/08 the information which MU had to provide under the contract consisted mainly of quarterly returns of data about student numbers and movements in the system. The dataset was broadly equivalent to the minimum data set the University had to provide in its reporting to HESA with some additional data items reflecting some distinctive characteristics of NHS education provision.²⁰³

Under the contract for 2008/09 the information which MU had to provide increased substantially. In addition to the earlier information requirements, MU had to provide further information as part of a new contract performance and management (CPM) system which was introduced by the GM. This additional information included analysis of the quarterly data returns as part of plans to '*maintain and improve (contract) performance*'. Analysis at individual student datum level was required where appropriate, and where there were small cohorts this was almost inevitable.²⁰⁴

The information requirements continued to grow as the new CPM system itself was developed. In particular there was under the 2012/13 contract a substantially increased requirement on MU to provide qualitative data, analysis and information.²⁰⁵

Contract Compliance – Management and Review: From 1995/96 to 2007/08, contract management consisted of review meetings once or twice a year and an annual report to the GM prepared MU. Reporting was to course level. A new CPM system was foreshadowed in the 2007/08 interim contract, in which a brief outline of it was given. It was not until the 2008/09 LEC that significant detail of the new CPM was provided and implementation of it got under way. Subsequently the CPM system continued to develop, mainly in terms of further information and management review requirements. For example, under the new CPM system, from 2008/09 review meetings were held quarterly. Eventually the CPM included a new 'Quality Assurance Framework' (QAF). The QAF was in addition to the University's own quality assurance systems and the review under the QAF was also additional to the annual monitoring reviews of the same education provision conducted by the regulator, the NMC. Under the QAF, in addition to the requirements set out in the 2008/09 contract (at programme and cohort levels draft action plans, identification of strengths and weaknesses) MU was required as part of an annual review process to: '*assess the quality of the provision for each Programme against the agreed key performance indicators in partnership with their Placement Providers and to monitor the performance of their Placement Providers*'. The 'key performance indicators' (KPIs) to be used were specified by the GM and comprised: 20 KPIs, 5 business intelligence measures and 8 sets of supporting information requirements. Progress on the action plans was to be reviewed every 3 months by MU reports and meetings between the GM and MU.

Under the 2012/13 contract a new 'Quality and Contract Performance Management' (QCPM) framework was initiated by the GM and formally implemented. The QCPM was based on the CPM system which it replaced and was the culmination of developments to the latter which had taken place since 2008/09. The QCPM also incorporated further measures which the GM had developed from ideas obtained from bidders submissions made as part of the 2012/13 contract tender process. The QCPM had 32 Contract Performance Indicators (CPIs) measured in 8 dimensions on 68 'compliance and innovation' measures; there were also 'business intelligence' measures on a further

²⁰³ In comparison with the HESA requirements the main additional information which MU had to provide was an annual report which consisted in an interpretation of the quantitative statistics. Examples of the requirements from different times during the reference period include: (i) Letter and enclosures from North London Consortium to MU of 3rd June 1996 – Archive 27, NHS History 6A, pp 1-4 (ii) NHS contract documentation 2004-05 – Archive 33 p. 14.

²⁰⁴ Source: NHS contract documentation 2008-09 – Archive 37 p. 15, pp 29-34.

²⁰⁵ Source: NHS QCPM 2012/13 – Archive 8.

9 dimensions. As per the 2008 contract, reporting was to include plans by programme, with progress on action plans reported quarterly and reviewed in meetings between the GM and MU. The new QCPM system also included the placement part of the education provision for which MU as under the 2008 LEC continued to have full responsibility. Full details of the QCPM are in Archive 8.

The burden of the QCPM introduced under the 2012/13 contract was estimated by MU management to be about five times that of the burden placed on them by the annual monitoring reviews and five yearly validation reviews conducted by the professional body regulator, the NMC.

Given the increased and increasing compliance burdens placed on MU commencing in 2008/09 and continuing for the rest of the reference period the stability impacts assessments made were:

S = Stable; TRI = Threatening entry to range of instability; U = Unstable		Stability Impact over Time																	
IOR Key Outcomes: COMPONENTS & Dimensions		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
3	Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI

4. Placement Responsibilities:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
4	Placement Responsibilities	Were responsibilities of parties aligned with their respective abilities to control outcomes? Y/N	R	Y	N	N	If N: consequential risk of negative impact on output quality and/or quantity. Under IOR 1995-2004 contracts buyer and supplier had joint responsibility for placements - these set as stability baseline.	Ratio of academic provision (controlled by supplier) to placement provision (controlled by buyer/employers) for pre-registration education was equal by time and input.	13, 14

From 1995/96 until 2004/05, the planning management and organization of placements was the joint responsibility of the organizations in the IOR. It was the responsibility of the GM and the placement providers to find sufficient placement capacity. From 2005 it became the responsibility of MU (in consultation with placement providers) 'to determine the location of any Clinical Placements.'²⁰⁶

From 2008/09, the planning management and organization of placements became the sole responsibility of MU. The quality of placements in terms of the standards required by the professional body regulator (the NMC) also became the sole responsibility of MU which, under the 2008/09 and the 2012/13 contracts, had to 'use its reasonable endeavours' to ensure those standards were met.²⁰⁷

S = Stable; TRI = Threatening entry to range of instability; U = Unstable		Stability Impact over Time																	
IOR Key Outcomes Dimensions		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
4	Placement Responsibilities	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

The above stability impact assessments reflected the fact that from 2005/06 MU had taken on sole responsibility for some aspects of the quality of the product over which they had no control. Whether or not a placement was provided was in the control of a potential placement provider, not of MU. As to the placements when provided: the placement environment as well as the conduct of the placement was mostly in the control of the placement provider; MU could *influence* the placement (e.g. through the training and guidance they provided to placement provider mentors) but not control it.

²⁰⁶ NHS contract 2005-06, Archive 34, p. 5

²⁰⁷ Source: NHS contract documentation – Archive 38, p. 17, clause 10.3

A copy of the 1995 contract was not available. However it was possible based on other contract documents from that period and from interviews with MU management to make an estimated assessment for 1995/96-1997/98 on the stability impact indicator for this dimension; this also the case with similar estimated assessments made for 1995/96-1997/98 on dimensions 6, 12 and 13.²⁰⁸

5.2 Outputs Key Outcomes and Stability Impacts

5.2.1 Definitions of Outputs Key Outcomes Dimensions

Under the outputs component of the IOR, the key outcomes were defined on 4 dimensions, comprising:

5. Output Specification was the specification of the education product/service.

6. Output Floors and Ceilings referred to restrictions on the changes to quantities of new commissions' outputs from one year to the next which could be made by the NHS education commissioner. 'Floors' referred to permitted maximum reductions in quantities of new commissions for a given year; 'ceilings' referred to permitted maximum increases of new commissions for a given year.

7. Short Run Variability of Output Quantities referred to the extent to which the GM varied its demand from year to year for quantities of outputs. Quantities were defined in terms of 'commissions' for the education and training provision for students on programmes of specified duration. Commissions were measured in terms of 'full-time equivalent students' (FTEs). Targets for new commissions were set annually by the GM in consultation with its suppliers.²⁰⁹

8. Trends in GM Demand for Output Quantities were defined in terms of the direction (increase or decrease) of the annually moving 3 year total of the output quantities demand of the GM.

5.2.2 Outputs Key Outcomes Stability Impacts

5. Output Specification:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
5	Output Specification (OS)	Was timescale allowed to implement fundamental change to OS ≥ minimum duration of current education programmes? Y/N	R	Y	N	N	If N: risk that supplier output will fail to satisfy specification or regulatory body requirements. Notice given by NMC for implementation of 2010 Standards set as stability baseline	Education provision specification was largely controlled by the regulatory body (the UKCC/NMC).	13; 14

The stipulations in the contracts throughout the reference period about output specification reflected the standard nature of the product demanded by the GM. Under the 2008/09 and 2012/13 contracts programmes were to be reviewed annually to ensure they continued to meet the GM's 'workforce requirements'. However, the requirements of the professional body remained paramount throughout the reference period – the technical specification for outputs was stipulated as conformance to the requirements of the professional body regulator. Consequently both the GM

²⁰⁸ Archive 32, pp 1-3 and 9-27.

²⁰⁹ Under the contracts, any over-recruitment of FTEs against targets was not funded. Because of its implications for the payment of student bursaries the education provider might also be subject to income clawback penalties from the GM for any over-recruitment against targets for pre-registration commissions.

and MU were 'specification takers'; although from 2007/08 the GM introduced a new CPM (later "QCPM") system the performance measures used in that system reflected a focus on the *quality assurance* of the output production processes rather than on the *quality* of the output.

S = Stable; TRI = Threatening entry to range of instability; U = Unstable								Stability Impact over Time																	
IOR Key Outcomes <i>Dimensions</i>		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013						
5	Output Specification	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S						

6. Output Floors and Ceilings:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable				Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators		Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
6	Output Floors and Ceilings	Were floors and ceilings to annual output quantities demanded by the buyer stipulated within the contract? Y/N		R	Y	N	N	If N: risk that supplier will be unable to respond effectively to short run changes in buyer demand. IOR 1995-2004 contract stipulations set as stability baseline.	Under IOR contracts buyer notified demand for output quantities on an annual 'call-off' basis. Increases or decreases in demand relative to previous years' demand could if outside of specified limits have been impossible for supplier to meet, either logistically or economically.	12; 13; 14

Until 2004/05 new commissions could be varied by the GM on the previous years' commissions' level only by a specific amount (c. +/- 15%) that is unless both organizations in the IOR agreed otherwise. From 2005/06 the contracts contained no stipulations about floors and ceilings; effectively, the levels of new commissions could be set from year to year at any level and be determined unilaterally by the GM - the following stability impact assessments reflected this:

Key: S = Stable; TRI = Threatening entry to range of instability; U = Unstable								Stability Impact over Time											
IOR Key Outcomes <i>Dimensions</i>		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
6	Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

7. Size of Short Run Variability of Output Quantities:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable				Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators		Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
7	Size of Short Run Variability of Output Quantities	Were annual output quantities demanded by IOR buyer within supplier's stated capability to adjust supply to demand? [Stipulation in IOR 2000 contract {>(+/-5%)} of overall output quantities used as proxy.] Y/N		R	Y	N	N	If N: risk that supplier unable to respond effectively to changes in buyer outputs demand. IOR 2000-2004 contract stipulations set as stability baseline.	Under IOR contracts buyer notified demand for output quantities on an annual 'call-off' basis. Increases or decreases in demand relative to previous years' demand could if outside of specified limits have been impossible for supplier to meet, either logistically or economically.	12; 13; 14

The biggest year on year change in overall quantities was a reduction in these of c. (22%) in 2009/10. Otherwise changes in overall quantities did not exceed +/- 10% in consecutive years. These changes were mainly associated with changes in the levels of new commissions, although annual change in attrition rates for the three and four year pre-registration programmes was also a factor. The main changes in new commissions' levels for pre-registration programmes between 1995 and 2004 were all increases; from 2005 they were all reductions. The reductions occurred mainly in 2006/07, c. (8.5%) and during the last years of the reference period for pre-registration adult nursing programmes - the GM reduced its London-wide demand for these programmes for 2010/11 by c. (10%), for 2011/12 by c. (19%), and for 2012/13 by c. (25%). There was also a reduction of c. (59%) in the GM's demand for post-registration programmes over the period 2002/03 to 2007/08, with the largest year on year reductions occurring in 2002/03, c. (23%) and in 2006/06, c. (19%).²¹⁰

²¹⁰ Source: NHS response to FOI request (2012) – Archive 45.

From 1995/96 to 2008/09 new commissions for pre-registration programmes were allocated by the GM to all of its suppliers on the basis of their respective historic shares of those commissions. In 2009/10 MU volunteered a temporary reduction (for one year) in their new commissions for adult nursing programmes. The reduction was necessary because there was insufficient placement capacity for MU to fulfil the output demand requirements of the GM. This was agreed on the basis that in the following year, 2010/11 MU's *share* of the GM's new commissions London-wide for adult nursing pre-registration programmes was restored to its earlier level.²¹¹ In 2010/11 the GM initiated and implemented a change to the basis of allocation: historic shares would continue to be used but the resultant quantities for each supplier were now subject to adjustment (up or down) by the GM to reflect that supplier's performance on the GM's new CPM system. The GM never revealed details of how the levels of adjustments made to allocations were arrived at, nor were details available of adjustments made which affected other suppliers. It was possible to conclude however that MU gaining a top position in the CPM league table for 2010/11 for one occupational group (mental health nursing) resulted in a 15% better allocation to MU than the average allocation to all suppliers for that occupation for the following year.

In 2011 the GM initiated and held a tendering process for its commissions on two occupational groups which between them accounted for c. 50% of its overall commissions in the M_G. As part of the tender process the GM introduced a new basis of allocation. Tenders were scored on 12 dimensions.²¹² The quantities of commissions which successful bidders received was a function of their relative score overall. The outcome of the tender exercise was a reduction in the number of existing suppliers (for adult nursing the number of suppliers was reduced from 9 to 8). No new suppliers were appointed. The outcome for MU was a reduction in their share of new commissions for 2012/13 for adult nursing: MU's share of new commissions for that market segment declined from c. 13.8% (2011/12) to 10.5% (2012/13), effectively a reduction of c. (24%) in one year.²¹³

A feature of the allocation system used by the GM in the tender process was that relatively large changes in each supplier's new commissions' levels resulted from relatively small differences in their relative ranking in the tender and in their relative scores.²¹⁴

In general over the reference period, MU was able economically to adjust its supply to these changes in GM demand, whether brought about by changes in the GM's overall demand in the M_G or by changes in the allocation of that demand between suppliers. Nearly all of these changes were signalled well in advance by the GM. With regard to the relatively larger 2009 reduction, MU itself had initiated this as a part of a larger exercise it undertook to adjust its supply to available placement capacity. The following stability assessments therefore reflected (i) whether the year on

²¹¹ Source: Letter from NHSL to MU dated 19th February 2010 – Archive 46.

²¹² Full details of the Invitation to Tender were sourced in Archive 47. Although bidders had to submit full details of expected costs of their provision, price was not one of the *criteria* on which the tender was evaluated.

²¹³ Source: Archive 9 and Archive 45.

²¹⁴ For adult nursing there were 8 successful bidders and all were scored within the range 61% to 74%; the middle 6 of the 8 successful bidders were scored in the range 65.45% to 69%. MU was ranked sixth (bidder 6) and scored 65.50%. Bidder 5 was scored 65.54% and bidder 7 was scored 65.45%. Bidder 5 had no reduction made to their previous years' commissions' level, bidder 6 (MU) had a reduction of c. 36% and bidder 7 had a reduction of c. 50%. Sources: (i) Walsh, D. (2013) *'Middlesex University and the NHS Education Commissioner: A History 1994-2013'*, p. 120 – Archive 85 (ii) 'ITT feedback from NHS London to Middlesex University' April 2012 – Archive 63 (iii) 'Update on the tender for Adult Nursing ... January 2012', attachment presentation NHSL to Directors of Nursing (DoNs), slides 7-8 — Archive 64.

year changes exceeded the parameters stated in the 2000 contract; (ii) the ability of MU effectively to respond to annual shifts in demand as well as to influence that demand to some extent.

S = Stable; TRI = Threatening entry to range of instability; U = Unstable							Stability Impact over Time												
IOR Key Outcomes:		1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/
<u>COMPONENTS & Dimensions</u>		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
7	Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S	S	S	S	S	TRI	S	S	S

8. Trends in GM Demand for Output Quantities:

S = Stable; TRI =Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R): Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
8	Trends in GM Demand for Output Quantities	Was the moving 3 year total of output quantities demand of IOR buyer in decline? Y/N	O, R	N	Y	Y	If Y: risk that total benefits to supplier from IOR reduce due to reduction in buyer demand; risk that some supplier fixed costs no longer covered. Direction of change of 3 year trend in buyer output demand set as stability baseline.	Specialised nature of supplier fixed costs placed limits on their potential deployment to alternative uses.	12; 13; 14

Full details of the quantities of commissions received by MU from the GM are given in Archive 9. Overall trends in commissions quantities during the period are illustrated in Table 7 below: over the course of the reference period the total quantities of MU commissions initially grew by c. 32% (1995/96 - 2001/02), then after a one year fall of c. 10% in 2001/02 remained approximately the same (2002/03 - 2005/06) before finally going into decline by c. 28% (2006/07 - 2012/13).

Table 7 Total Quantities (FTEs) of MU NHS Contracts Agreed Commissions 1995/96 - 2012/13²¹⁵

1995/96	1806
2001/02	2395
2002/03	2144
2005/06	2153
2012/13	1538

Source: Middlesex University NHS Contracts Records, Archive 9

MU's overall market share, defined as MU's share of the GM's total non-medical commissions, was c. 10% over the period 2009/10 to 2012/13. MU's share of pre-registration and post-registration total commissions was also approximately the same (c. 10% and c. 9% respectively). MU offered its provision for only some of the non-medical occupations so that its shares within the relevant pre-registration market segments were higher (at c. 12% for nursing and at c. 15% for midwifery programmes). Overall these shares were fairly consistent from year to year.²¹⁶

MU's share of new commissions for pre-registration nursing programmes ranged between c. 13% (2007/08 and 2008/09) to c. 8% (2009/10) to c. 11.5% (2010/11 and 2011/12) to 9.8% (2012/13). In

²¹⁵ Details of agreed commissions for all years 1995 to 2013 were sourced in Archive 9. The details were compiled by the writer from MU contracts records and independently checked and confirmed by MU management.

²¹⁶ Sources: (i) MU quantities from MU and NHS Commissioner contracts records, Archive 9 (ii) Overall market commissions' data for 2007-2012/13 from NHS London: response to Freedom of Information request December 2012 – Archive 45. Data for earlier years were not available. But it is estimated that MU's overall market share for those years was c. 12%.

contrast MU's share of new commissions for midwifery programmes was relatively consistent over the period 2007/08 to 2012/13 at c. 14% - 15%.²¹⁷

S = Stable; TRI = Threatening entry to range of instability; U = Unstable								Stability Impact over Time											
IOR Key Outcomes:		1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/
COMPONENTS & Dimensions		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
8	Trends in GM Demand for Output Quantities	S	S	S	S	S	S	S	S	TRI	TRI	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI

The above stability impact assessments reflected that from being a source of long term growth for MU its NHS activity had become a source of long term decline. This is illustrated in Table 8 below: the proportion of MU's total FTE students that were NHS students generally followed the same pattern - growth, steady state and decline – as changes in its quantities of NHS agreed commissions.²¹⁸

Table 8 Middlesex University Quantities (FTEs) of all Students and of all NHS Students

	MU All Students	MU All NHS Students ²¹⁹	MU NHS Students/ MU All Students
	FTE 000's	FTE 000's	%
1995/96	18.21	1.62	8.9
2001/02	20.39	2.16	10.6
2002/03	19.56	1.93	9.8
2005/06	21.12	1.94	9.2
2011/12	20.66	1.39	6.7

Sources: HESA; MU NHS Contracts Documents – Archives 9 and 10

5.3 Price Key Outcomes and Stability Impacts

5.3.1 Definitions of Price Key Outcomes Dimensions

Under the price component of the IOR, the key outcomes were defined on 4 dimensions, comprising:

9. Basis of Price – Innovation was whether price included incentives to the supplier to innovate and/or included allowances to the supplier for costs associated with product or process innovation.

10. Basis of Price – Full Economic Costs (FEC) was the nature of the price for outputs (unit price, contract price) and the principles on which it was based. **FEC** was defined as the full economic actual cost or the full economic planned standard cost, including the treatment of inflation. FEC was defined in this inquiry to exclude costs associated with either product or process innovation – these were dealt with separately under IOR dimension 9 (*basis of price – innovation*).

11. Basis of Price – OBC Risk was the relative shares of the financial risks borne by the GM and MU for student attrition.²²⁰

²¹⁷ Sources: Ibid.

²¹⁸ Details of the University's total student FTE and of its total NHS student FTE over the reference period were sourced in Archive 10.

²¹⁹ Actual numbers of students are shown here, in Table 8. In Table 7 the NHS numbers shown were 'planned commissions', not numbers of actual students – hence the differences in figures between the two tables.

²²⁰ 'OBC' is defined later in this Chapter.

12. Actual Price v Supplier's Actual/Planned FEC was the actual price paid for outputs relative to the supplier's actual/planned FEC. 'Actual Price' was defined as the levels of price, *ex post*, expressed in real terms.

5.3.2 Price Key Outcomes Stability Impacts

9. Basis of Price - Innovation:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable		Stability Impact			Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
Key Outcomes Dimensions	Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U		
9 Basis of Price - Innovation	Did price allow for supplier costs associated with product or process innovation?	R	Y	N	N	If N: lack of incentives for supplier to innovate increases risk supplier becomes relatively inefficient and/or ceases to respond effectively to changes in buyer requirements or in wider environment. 'Quality Premium' introduced via 2009 BMP agreement set as stability baseline.	Assumed that at least some innovation requirement would exist given continuing change in requirements of non-medical roles associated with changes in technologies of patient care.

Under the IOR contracts from 1995/96 to 2006/07 no allowances were included in the price for MU costs associated with product or process innovation; neither were any price related incentives for innovation provided. Price in the 1995/96 contract was negotiated and agreed locally by the organizations in the IOR. From 2007/08 the price under the contracts for new pre-registration commissions became the National Benchmark Price (BMP).²²¹ However the BMP concept was based on an historic average actual cost of outputs which did not recognise costs associated with either product or process innovation (e.g. the costs of research were specifically excluded from the BMP concept).

This continued to be the case under the 2008/09 contract. However, in 2009 following a review of the BMP and as the outcome of a national negotiation, 'price' was redefined to consist of two elements. The first element continued to be the BMP. The second element of price was a 'quality premium'. The quality premium (equal to c. 5% of the BMP) was payable in line with arrangements which were to be locally devised by, and agreed between the organizations in the IORs (such as the GM and MU). Although never subsequently formalised, the quality premium became from 2009/10 a de facto part of the contractual arrangements between NHS and MU. The quality premium was an incentive system designed to reward suppliers which through product and process innovation were able to achieve contract compliance outcomes at a relatively high level; such outcomes for example might come about through a decrease in the incidence of student attrition, the results of which would be reflected in systematic assessments made by the GM under the CPM arrangements of supplier contract performance.²²²

²²¹ The BMP was a national tariff applicable to all professions within non-medical education. The BMP concept arose out of recommendations made by the National Audit Office in 2001 in its review on non-medical education and training. The NAO found there were wide variations in pricing across the country only part of which could be explained by variations in unit costs; it concluded there was evidence of historic under-pricing by some HEIs, the latter partly reflecting a legacy of initial 'market-entry' level pricing. Source: *'Educating and training the future health professional workforce for England'*, Report by the Comptroller and Auditor General; HC2771 Session 2000-01; 1 March 2001, p.4.

The BMP concept was subsequently developed in a DH commissioned study in 2002/03; source: *'Provision of Standard Pricing System for NHS Non-Medical Education and Training Contracts'*, JM Consulting January 2003. A copy of the 2003 JM Consulting report is included as Archive 28.

The final details of the BMP were agreed subsequently in national level negotiations in 2003 between the Department of Health and Universities UK. However the implementation of the BMP did not begin until 2005 and it was not until 2007 that it was implemented by the GM in London.

²²² Source: *'BMP Review Process and Outcomes'*, p. 12 in *'CoDH Update on 2008/09 BMP Negotiations'* (March 2009) – Archive 65.

Under the 2012/13 contract both elements of price, the BMP element and the 'quality premium' element, were to continue.²²³

Key: S = Stable; TRI = Threatening entry to range of instability; U = Unstable										Stability Impact over Time									
IOR Key Outcomes:		1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/
COMPONENTS & Dimensions		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
9	Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	S	S	S	S

These stability impact assessments reflected the absence of an innovation element in the price until the introduction of the 'quality premium' in 2009/10. Once introduced the quality premium continued to be part of the price concept in the IOR for the rest of the reference period.

10. Basis of Price - FEC:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
10	Basis of Price - FEC	Was unit price based on principle that price should be no less than ≈ standard FEC of supply of outputs demanded? Y/N	R	Y	N	N	If N: risk that IOR will become financially unsustainable for the supplier. FEC as defined in IOR 2012 contract set as stability baseline.	Norm for HE sector was that full costs of education providers for teaching programmes would be met e.g. HEFCE remit. Norm was implicit in the original tender round for IORs in the the M ₂ and explicit from 2003 under the BMP concept.	12; 13; 14

Price agreed under the 1995/96 contract was an overall contract price and was *supposed* to be based on the expected costs to MU of the education provision. However, due to a c. £1m under-pricing/costing of MU's proposal, the *actual* contract price was set at a level well below MU's FEC.²²⁴

Using the contract price and quantities of student (FTE) commissions under the 1995/96 contract as the basis, unit prices were calculated and agreed for the 1996/97 contract.²²⁵ These unit prices (with a negotiated adjustment for annual inflation related to movements in the GDP deflator for the NHS) became the basis for price agreed by the GM and MU from 1996/97 until 2006/7.²²⁶

In 2007/08 the unit price for pre-registration programmes became the BMP. An underlying principle of the BMP was that it should reflect the estimated standard FEC cost to education providers of delivering the education provision.²²⁷ Although the GM (NHS) implemented the BMP and paid the BMP rates, it never accepted the underlying principle (price ≈ FEC) on which the BMP was supposed to be based.²²⁸ From 2005/06 the overriding principle adopted by the GM had been that the overall contract price should be affordable within its annual budgets. From the GM's perspective the application of this 'affordability' principle (from the GM's standpoint) meant the freedom for it either to make adjustments to its demand for output quantities, **or** to make adjustments to price, **or** to make a combination of output quantity and price adjustments. In relation to unit price, this became material in 2005/06 when the GM delayed implementation of the BMP (which would have

²²³ Changes in NHS structures in 2013 meant that all M_G nationwide came under the control of a single GM, HEE, from April 2013. However both MU's 2012 contract and 2008 contracts were novated to HEE so that the price arrangements based on BMP and the quality premium continued to apply.

²²⁴ Archive 27, 'NHS History 4', pp 1-2, where details were sourced of the items which had been under-costed.

²²⁵ Ibid

²²⁶ Archive 9, 'Commissions Quantities Prices MU History 1995/96 – 2012/13'

²²⁷ This principle was stated both in the NSC (2006) and in the NSEFA (2010) – Archive 7.

²²⁸ This was the position also applied to all suppliers throughout the M_G at least from 2009 when the below estimated standard cost BMP which was 'negotiated' earlier that year was implemented by the GM.

raised unit prices) initially to 2006/07 and subsequently to 2007/08.²²⁹ Even then, the implementation of the BMP was phased in over a three year period: from 2007/08 the BMP was paid only for new pre-registration commissions - the old unit rates continued to be paid for students already in the system. Thus the BMP was not fully implemented until 2009/10. However, in 2009 the BMP unit price itself was affected by application of the principle of 'affordability' from the GM's standpoint: due to an intervention by the Chief Executive of the GM, the outcome of the 2008-2009 national level negotiations on the BMP resulted in its underlying principle, (price \approx FEC), being superseded: the new rates negotiated for the BMP were c. 8.9% less than if the (price \approx FEC) principle had been applied.²³⁰

The new 2009/10 BMP rates, with annual increments for inflation, continued as the main basis of price for the rest of the reference period (to 2013). Under the 2012/13 contract the BMP rates were to continue as the main basis of price until at least 2013/14. For 2014/15 onwards the GM and MU were to use 'all reasonable endeavours' to agree a new basis for unit price, one which was based on 'output measures'. The latter was intended as part of a plan to '*move away from Benchmark pricing towards arrangements based on output measures*'²³¹

IOR Key Outcomes Dimensions	S = Stable; TRI = Threatening entry to range of instability; U = Unstable								Stability Impact over Time											
	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013		
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI		

These stability assessments reflected the fact that at no time during the reference period was price based on the principle that price should approximate to MU's FEC.

11. Basis of Price – OBC Risk:

After a brief introduction about the background and rationale of OBC, this sub-section is structured into four parts (i) Background and Rationale of OBC (ii) Definition and Basis of OBC (iii) Allocation of Responsibilities and Risks and (iv) Outcome and Consequences of an OBC Proposal.

(i) Background and Rationale of OBC: from the early 1990s there was a trend in public procurement to the use of 'performance based contracts' (PBC) otherwise known as 'output based contracts' (OBC).²³² 'Performance' was conceptualised as a hierarchy of four levels. In NHS workforce education these levels consisted in:²³³

1. Inputs – such as funding and money expenditures
2. Activities (effort) – such as the number of education programmes provided and the number of students trained on those programmes
3. Outputs – such as the number of qualifiers/successful completers from those programmes

²²⁹ Sources: NCLSHA notes of meeting on 28th September 2005 between NCLSHA and MU – Archive 70; NCLSHA letter to MU, dated 27th July 2006 – Archive 71.

²³⁰ Sources: JM Consulting (2008) '*Review of benchmark prices in nursing, midwifery and AHPs for the Department of Health*', p.20 paragraph 5.2 – Archive 29; '*Agreement between UUK/CoDH and DH/SHAs* (May 2009), paragraph 1 – Archive 30; Walsh, D. (2013) *ibid*, pp 137-138 and footnotes 457-458; CoDH (2014) '*BMP Cost/Funding Gap 2007-2013*' – Archive 11

²³¹ Source '*MU NHS Pre-registration Adult Nursing Contract 2012_15*' p. 17, paragraph 14.6 - Archive 38.

²³² For the purposes of this dissertation, OBC and PBC are assumed to be synonymous. However where 'performance' is equated with outcomes rather than merely with outputs, the differences between these levels of performance need to be appreciated.

²³³ The following conceptual framework is taken from Smith, D. And Grinker, W. (2003) '*The Promise and Pitfalls of Performance-Based Contracting*' 25th Annual Research Conference of the Association for Public Policy Analysis and Management (APPAM) Washington, D.C. November 2003. Available at: <http://www.seedco.org/the-promise-and-pitfalls-of-performance-based-contracting/>

4. Outcomes (achievement) – such as the number of qualifiers who become employed in NHS provider organizations

Contracts at levels 3 and 4 above were described as either PBC or OBC. The main justification given for OBC was that these contracts functioned to shift the focus of the contracting parties from the lower levels of performance ('inputs' and 'activities') to the higher levels ('outputs' and 'outcomes').

A further justification given for OBC concerned the kind of control of the contracting relationship which needed to be exercised. A distinction was made between control which was focussed on 'behaviours' (such as on how activities were carried out) and control which was focussed on 'outcomes'. There were circumstances when supplier behaviours were either too complex or too many, for these to be managed effectively (via the contract mechanism) by the buyer. But if in those circumstances the desired outcomes could be well defined and provided that the performance against those outcomes could cost-effectively be measured, monitored and incentivised then, it was argued, a control system focussed on outcomes was more appropriate.

(ii) Definition and Basis of OBC: in the context of pre-registration education provision an 'Output Based Contract' (OBC) has been defined as 'a contract based on the number of qualified graduates at the end of a commissioned education programme'. This meant that tuition fees for students were payable by the commissioner provided those students successfully completed a programme for which they had held a commissioned place.

Thus the main differences between OBC and the actual contracts for pre-registration education between the GM and MU during the reference period concerned the level and type of performance sought, the allocation between the GM and MU of responsibilities and risks concerning student attrition, and in practical terms the respective payment obligations and entitlements of the GM and MU. With regard to level and type of performance, the actual contracts were geared to the completion of student months on a programme. Although technically this was an output based arrangement it was in its essence closer to an 'activities' level rather than an output level of contract performance.

(iii) Allocation of Responsibilities for and Risks of Student Attrition: under the contracts during the reference period MU was mainly responsible for student attrition. However with regard to payment obligations, under all of the contracts in the reference period tuition fees were payable by the GM to MU in proportion to the attendance by students on their programmes.²³⁴ Consequently the resource and funding risks relating to attrition were shared between the GM and MU. For example, for a student who completed the first year of their programme but dropped out half way through their second year, the tuition fees payable by the GM under the contracts was for 1.5 fte.²³⁵ In contrast, under OBC defined on the basis of programme completion (rather than student months completed), no tuition fees would have been payable for that student and any fees already paid by the GM to

²³⁴ This was subject to the attendance being for a period which went beyond the initial 10 weeks of the first year, and also subject to attendance in respect of repeat years). Thereafter MU was paid for completed student months (these were calculated as a proportion of annual fte).

²³⁵ Thus MU got paid for the direct costs for their fte student attendance. What MU lost was the income they could have obtained for post-attrition student fte. This was material since most of that income would have been to cover part of MU's costs of ensuring sufficient capacity to deal with pre-attrition fte student activity levels – such costs would generally continue at about the same level post-attrition, at least in the short-run. What the GM 'lost' was equal to what they paid MU for those students who left the programme before completion (this assuming that a part completion was of no value to the GM). Thus, depending on when on average attrition occurred during a programme then the risks of student attrition were shared more or less equally between MU and the GM.

MU for that student for both their first and second years would have been subject to full clawback from MU. Thus under OBC as defined above, MU would have been wholly responsible for attrition and would also have borne all of the consequential risks relating to income and costs.

(iv) Outcomes of OBC Proposals:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact			Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
Key Outcomes Dimensions	Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U			
11 Basis of Price - OBC Risk	Did/will supplier, without equivalent compensation in price bear more or all of the financial risks relating to student attrition? Y/N	R	N	Y	Y	If Y: IOR supplier bears some/all of the financial risks relating to student attrition without equivalent compensation in price. If N: financial risks relating to student attrition are equally borne by IOR buyer and supplier. OBC (months) as per IOR 1995-2013 contracts & BMP concept 2003-2013 set as stability baseline.	Incidence of attrition believed to be mostly outside of the direct control of both the supplier and the buyer (some evidence to support this assumption). Consequently it was assumed that allocation of financial risks associated with attrition would be equally allocated when price was set on an OBC (months) basis.	12; 13; 14

In May 2010 the GM made a proposal to all of its suppliers that the existing pre-registration contracts be changed and put onto an OBC (completion of programme) basis.²³⁶ The rationale given by the GM was that its proposal was part of set of proposals the objective of which was to cut the costs of funding non-medical education by c. (20%) by 2014/15. After ensuing discussions/negotiations with its suppliers, the GM announced in November 2010 that it was shelving its OBC proposal as it had identified other means by which it could attain its cost cutting objective.

In September 2011, as part of the tender exercise it had initiated for adult nursing pre-registration education, the GM stipulated as a condition of the tender that the GM and successful bidders would, by 2014/15, make 'all reasonable endeavours' to move their pre-registration contracts on to an output basis. This stipulation subsequently became incorporated as a term of the contracts finally agreed between the GM and the successful bidders.²³⁷

S = Stable; TRI = Threatening entry to range of instability; U = Unstable										Stability Impact over Time											
IOR Key Outcomes Dimensions		1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013		
11 Basis of Price - OBC Risk		S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S		

The above stability impact assessments were based on:

(1) In September 2010 MU calculated that the financial impact of the OBC arrangement proposed by the GM would be the equivalent of a c. (22%) reduction on the unit price per fte they received on their pre-registration NHS activity.²³⁸ Thus the shelving of that proposal meant that a potentially financially unsustainable position for MU on its pre-registration NHS contract had been averted, at least for the time being.

²³⁶ 'Financial Strategy for Workforce Transformation', presentation by NHSL to LDHG, May 2010, slide 5; 'London Deans', presentation by NHSL to LDHG, 1st July 2010, slide 10; 'London Deans of Health', presentation by NHSL to LDHG, 29th July 2010, slides 5-10 – Archive 48.

²³⁷ Source 'MU NHS Pre-registration Adult Nursing Contract 2012_15' p. 17, paragraph 14.6 - Archive 38.

²³⁸ Archive 12 'Potential Financial Impact of OBC', email from MU to the HEFCE of 13th September 2010, attachment: 'NBP v OBC', slide 3. Key to the financial assessment were assumptions made about future attrition rates and the extent to which these could be managed downwards by MU. MU's view was that although it could exercise an influence on attrition rates, the factors which were associated with attrition or accounted for its incidence were largely outside of MU's control; *ibid*, slide 4.

(2) The reinstatement of OBC as a matter for negotiation between the GM and MU (along with other suppliers in the M_G) by 2014/15 meant that there was a continued prospect that MU's position on its pre-registration NHS contract would become financially unsustainable. However, OBC was in effect off the agenda until 2014/14, hence the assessment above of 'stability' for the remaining years of the reference period.

12. Actual Price v Supplier's FEC:

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
12	Actual Price v Supplier's FEC	Were actual prices at least equal to supplier's actual or planned FEC? Y/N	O, R	Y	N	N	If N: ceteris paribus, in long run it becomes uneconomic for supplier to continue engagement in the IOR. See dimension 10 above for definition & source of definition.	As for IOR dimension 10.	6-7; 8-11; 1

Details of unit prices for the reference period are given in Archive 9. In arriving at the 1995/96 agreed contract price, MU had underestimated the expected costs of staffing. That underestimate, in addition to other omissions and underestimates meant that the MU contract proposal for 1995/96 had been under-priced by c. (£1m). The under-estimate was picked up by MU only after the contract had been signed although before the commencement of the contract term. However the agreed contract price continued to be applied.²³⁹

Unit Prices 1996/97 – 2006/07: these were based on an assumed linear relationship between the 1995/96 contract price and output quantities. Annual unit price uplifts for inflation were made. Later, in 2003, a negotiated adjustment to the unit price for post-registration programmes was made when a real terms increase of c. 25% was made. The GM agreed this increase as a compensation for the reductions in the GM's demand for output quantities for post-registration programmes which had been made in 2002/03, c. (23%) and also in 2003/04, c. (11%).

Unit Prices 2007/08 – 2012/13: BMP rates were implemented for new pre-registration commissions from September 2007. The effect of this was to increase the unit prices paid to MU for these commissions by c. 12%. The BMP was initially planned by the DH to take effect nationally from September 2005. However the GM delayed the implementation of the BMP in its region by two years to September 2007, citing funding constraints as the reason.

²³⁹ Source: MU senior management; Walsh, D. (2013) 'Middlesex University and the NHS Education Commissioner: A History 1994 – 2013', p. 126. That some substantial under-pricing had occurred was inferred from examination of the costs estimates prepared by MU senior management in 1995/96/97 – Source: Archive 27). For example, for 1996/97 the total charges estimated for MU overheads plus costs of service agreements (estates and other related external overheads) were c. (£1.2m). This was c. 13% of the estimated contract value and represented a contribution to overheads of c. 15%. In addition MU put forward for negotiation with the GM some of those costs which had been omitted from their 1995 contract proposal. These costs - for research, capital, and salary under-provision - amounted to c. (£640k). If the contract price had been adjusted to reflect these costs then the contribution to MU overheads would have risen to c. 19%. This probably would still have been well below FEC levels (a contribution to overheads of c. 35% would probably have represented an FEC break-even position). As it turned out, the GM refused to make any adjustments to the contract price. Furthermore, no adjustments to the unit prices in subsequent contracts were ever made for the under-pricing in the 1995/96 contract. Consequently, the potential loss to MU became a c. (£1m) p.a. (at 1995 prices) loss in perpetuity, not just a loss for 1995/96. It was not until 2007-09 when a new basis for unit price (the BMP) was implemented that the continued impact of MU's under-pricing in 1995 was finally 'corrected'.

National level negotiations on the BMP were also conducted in 2009. There were three outcomes to those negotiations: (i) following an intervention by the Chief Executive of the GM the DH representing the GMs throughout England decided to renege on an agreement which they had reached with the HEIs' representatives in 2008;²⁴⁰ (ii) the second outcome was to reset BMP rates from September 2009 to a level which was c. (8.9%) below the estimated national standard cost at that time.²⁴¹; (iii) the third outcome was to introduce a 'quality premium' the basis of which depended on GM assessments of the contract performance of their suppliers. The quality premium, which was additional to the BMP, was payable on criteria to be developed locally by each GM for their respective areas, up to a level equal to 5% of the BMP. In practice the criteria set by the GM for payment of the quality premium were such that the actual quality premium paid overall in the M_G did not exceed c. 0.5% of BMP.²⁴² Thus in relation to the principle, price \approx cost, an outcome of the 2009 national negotiations was an average net loss to M_G suppliers of c. (8.4%) on the overall unit prices.²⁴³

By 2014, a comparison by the Council of Deans of Health (CoDH) of BMP rates for 2013/14 with the estimated national standard costs for pre-registration nursing education concluded that there was a c. (11.5%) shortfall of the BMP. Even when an estimated 0.5% for the quality premium was added, the BMP rates had over the years 2008 to 2013 drifted to c. (11%) below estimated FEC levels.²⁴⁴

S = Stable; TRI = Threatening entry to range of instability; U = Unstable								Stability Impact over Time																		
IOR Key Outcomes:		1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/							
<u>COMPONENTS & Dimensions</u>		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013							
12	Actual Price v Supplier's FEC	U	U	U	U	U	U	U	U	U	U	U	U	U	U	?	?	S	S							

The above stability impact assessments were based on:

(1) The actual contract price for 1995/96 was c. £1m below MU's planned full economic costs

(2) For the period 1996/97 to 2006/07 the actual unit prices for the IOR pre-registration programmes were directly based on the 1995/96 contract price. Consequently, for that period MU sustained a loss compared to the unit prices it could have had for its pre-registration programmes, which was

²⁴⁰ Sources: (i) Walsh, D (2013), *ibid* (ii) 'CoDH Update on 2008/09 BMP Negotiations' – Archive 65

²⁴¹ In 2007 the DH commissioned JM Consulting Limited to complete the first five year review of the benchmark price. The estimate of 8.9% is based on (i) JMC's 2008 report which concluded that the BMP had over the previous 5 years fallen behind the standard cost by c. (12.8%), and (ii) the actual BMP settlement in the 2009 BMP negotiations (which was an increase of 3.9% p.a.). Sources: JM Consulting Limited (January 2008) 'Review of Benchmark Prices in nursing, midwifery and AHPs for the Department of Health', copy report as Archive 29; 'Agreement between Universities UK/Council of Deans of Health and the Department of Health/Strategic Health Authorities on the implementation of the review of benchmark prices for nursing, midwifery and allied health profession pre-registration education' (22 May 2009), copy agreement sourced in Archive 30.

²⁴² As a proportion of the BMP, the quality premium earned by MU over the period 2010-2012 was c. 0.3% p.a.

²⁴³ (8.9% - 0.5%) = (8.4%).

²⁴⁴ Source: Council of Deans of Health (2014), Archive 11 'BMP Funding Gap 2007_2014', tab 2. In arriving at this estimate the choice of cost index was important. An exercise completed in 2014 by the writer with the Council of Deans of Health (CoDH) showed that if the index used was based on annual GDP movements then the shortfall between the 2013/14 BMP and estimated actual costs to the average HEI of their NHS pre-registration provision was c. (7.9%). But if an index based on changes in costs in Higher Education was used then the BMP shortfall against the estimated actual costs for 2013/14 increased to c. (11.5%).

equal to c. 12.5% of the value of its teaching provision for its NHS pre-registration contracts.²⁴⁵ Whether actual prices would cover MU's actual FEC depended partly on the level of MU's indirect costs. MU made substantial operating losses, for all years from 2000/01 to 2005/06. For the years 2011/12 and 2012/13 MU made operating surpluses which were at or well above, HE sector averages.²⁴⁶

(3) Implementation of the BMP in 2007 was a phased implementation – the BMP rates were for new commissions only. Consequently, existing commissions (i.e. second and third year students on pre-registration programmes) would continue to be paid at the old rates for a further 2 years to 2008/09

(4) The contribution levels from its NHS activities estimated by MU in 2006, 2009, 2011, and 2012.²⁴⁷

(5) The **actual** FEC position on its NHS activities estimated by MU in 2011 and 2012.²⁴⁸

From the above it was concluded that MU's NHS activities were FEC negative for the period 1995/96 – 2008/09 and FEC positive for the period 2011/12 – 2012/13.²⁴⁹ It was also noted however that throughout the period MU's SSR levels were well below those strongly recommended by the professional body, the NMC. Had MU implemented the NMC SSRs then its NHS FEC position for 2011/12 would have been negative and for 2012/13 at approximately break- even level.²⁵⁰

5.4 Performance Key Outcomes and Stability Impacts

5.4.1 Definitions of Performance Key Outcomes Dimensions

13. Performance (i) was the assessment of the historic and current performance of the IOR made on criteria used by the GM and by external regulators.

14. Performance (ii) was the assessment of the historic and current performance of the IOR made on criteria used by MU.

5.4.2 Performance Key Outcomes Stability Impacts

13. Performance (i)

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable			Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
13	Performance (i)	Were ratings of IOR and supplier performance by IOR buyer and external regulators at 'satisfactory' or better? Y/MR/N	O, R	Y	MR	N	If MR: Mixed ratings e.g. some of IOR buyer and/or regulator requirements not met N: supplier failing to meet IOR buyer and/or regulators' key requirements. Buyer & regulator requirements set as stability baseline.	IOR buyer assessments of IOR performance assumed to indicate stability state of IOR from buyer's standpoint.	1 - 12

²⁴⁵ Coincidentally, the increase in unit price on new pre-registration commissions which MU received in 2007/08 following the implementation of the BMP was c. 12.5% i.e. the increase was almost exactly the same adjustment to unit prices which MU would have argued for on the basis of what uplift to unit prices should have been applied had the 1995/96 contract price been formulated correctly (so that price ≈ cost).

²⁴⁶ Source: MU Financial Statements 2000/01 to 2012/13 – Archive 18 MU Financial Statistics 1993-2013; HEI Financial Statistics 1995-2013 - HESA.

²⁴⁷ Sources: MU NHS Contracts financial Sustainability Assessments 2006, 2009, 2012 – Archives 19, 20, 21 and 22.

²⁴⁸ Sources: (i) MU NHS Adult Nursing Tender 2011 Financial Schedule – Archive 21, tab 1 (ii) MU NHS Contracts financial Sustainability Assessment 2012 – Archive 22.

²⁴⁹ There were insufficient data to make reliable assessments for the years 2009/10 and 2010/11.

²⁵⁰ Archive 21, tab 5, and Archive 22, tab 3.

5.4.2.1 IOR Performance Assessments made by the GM

The stability impacts on the dimensions of the performance component of the IOR prior to 2006 reflect imputed assessments of IOR performance by the GM. These were inferred from the various renewals of the IOR contract made by the GM without any expressed reservations.

In 2007/08 the GM developed and piloted a framework for assessing the performance of its education suppliers. Assessments were made of each supplier based on their performance against the 'key performance indicators' (KPIs) included in the GM's contract management and performance framework.²⁵¹ KPI dimensions included marketing, student recruitment and selection; curriculum content, delivery and learning outcomes; practice placements; student attrition, progression and achievement. The performance on each dimension was measured on several measures. Both quantitative and qualitative measures were used. Each supplier's performance on all dimensions was brought together by the GM for an overall assessment of the supplier. The overall assessment was given as a score which was categorised either as 'green' (no issues), high and low amber (some issues), and red (major issues requiring immediate improvement). Suppliers were ranked according to their overall score and the ranking published as press releases (e.g. as in Archive 13 in April 2009 for assessments of 2007/08 performance). The results were also posted on the GM's website.

Summaries of the overall assessment ratings by the GM of MU and also of its other suppliers for nursing and midwifery education for the three years 2008/09 to 2010/11 were sourced in Archive 14 and for the three years 2010/11 to 2012/13 in Archive 15. Over the whole period 2007/08 to 2012/13 MU's ratings across all occupational groups for which it provided education, averaged 'high amber' and by occupational group ranged from 'low amber' to 'green'. Overall therefore, from the GM's perspective the performance outcome of the IOR it had with MU was at least 'satisfactory' and usually 'very satisfactory'.²⁵²

In 2011 MU submitted a tender to the GM for adult nursing pre-registration education. The tender was assessed by a group comprising the GM and NHS placement providers. MU were successful along with 7 of the 8 other existing education providers. MU's tender was given a 65.5% score by the assessors.²⁵³ In relation to CPM scoring this result was equivalent to a 'low amber' or satisfactory rating. Except for one of the successful bidders which received a score equivalent to 'high amber', all of the other successful bidders also received scores which were equivalent to a 'low amber' rating.

5.4.2.2 IOR Performance Assessments made by Regulatory Bodies

As part of the requirements of the professional body, MU was rated annually by the NMC on the quality and quality assurance of its pre-registration education. The ratings obtained by MU in these NMC annual monitoring reviews were consistently either 'Satisfactory/Good' or 'Good' (the highest NMC rating). In both the 2009 and 2012 annual monitoring reviews the University's pre-registration

²⁵¹ Also see supra the section 'Contracts Key Outcomes' under 'Contract Compliance - Management and Review'.

²⁵² It was much the same performance assessment for other suppliers of nursing and midwifery education in the M_G; excepting one university whose performance was on average rated as 'low amber', all other universities averaged a 'high amber' performance. There was no 'red' rating of contract performance given to any university on any occupational group over the whole period such ratings were made – 2007-2013.

The same position overall was the case for assessments made by the GM of the performance of its university suppliers of allied health professions education – a summary of the GM's assessments for those professions for the period 2010/11 to 2012/13 was sourced in Archive 15. Thus from the GM's standpoint the performance of the M_G overall was also satisfactory.

²⁵³ Source: NHSL letter 15th December 2011 to MU – Archive 49.

provision had been rated by the NMC as 'Good' on all 5 dimensions of the review.²⁵⁴ It was unusual for the NMC to give its highest rating across the board in a single annual review; MU was one of only two London universities to achieve this overall rating in 2009 and the only one in 2012.

MU was also successful in the 5 yearly NMC revalidation reviews of its pre-registration programmes. In 2011 MU was amongst the first of the universities to have pre-registration programmes validated to the NMC 2010 standards for nursing education. The stability impact assessments below were based on the separate assessments of MU performance by the GM and the NMC: for the GM in regard to the GM's renewal of contracts with MU and by the GM assessments of MU contract compliance over time (including the CPM assessments from 2007/08); for the NMC by its ratings of MU in its 5 yearly programmes reviews and by its ratings of MU in its annual monitoring reviews.

S = Stable; TRI = Threatening entry to range of instability; U = Unstable										Stability Impact over Time																
IOR Key Outcomes Dimensions		1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013							
13	Performance (i)	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S							

14. Performance (ii)

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable				Stability Impact						
Key Outcomes Dimensions		Stability Impact Indicators		Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	S	TRI	U	Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
14	Performance (ii)	Were ratings of IOR performance by supplier at 'sustainable' or better? Y/MR/N		O, R	Y	MR	N	If MR: Mixed ratings e.g. of quality and financial performance. If N: supplier failing to meet key IOR requirements. Supplier requirements set as stability baseline.	IOR supplier assessments of IOR performance assumed to indicate stability state of IOR from supplier's standpoint.	1 - 13

MU made assessments of the performance of its NHS contracts at various times during the reference period. These assessments concerned financial and non-financial performance and future prospects.

5.4.2.3 MU Assessments of the IOR Financial Performance

The main conclusions of these analyses²⁵⁵ were:

- 1995/95: Income to MU from its NHS contracts was estimated to be c. (£1m) below planned FEC.²⁵⁶ In 1995/96 MU recorded an operating surplus of c. £2.7m.²⁵⁷
- 2006: The overall contribution to MU overheads from income on its NHS contracts and associated activity for 2006/07 was forecast at c. £6.37m, c. 44% of forecast income.²⁵⁸ For the same year comparable contribution rates from other large operating areas of MU such as Business, Computing Science and Arts were c. 50% to 55%. To put this in perspective: in

²⁵⁴ Source: Walsh, D. (2013) 'Middlesex University and the NHS Education Commissioner: A History 1994 – 2013', pp 152-153 – Archive 85. The 5 dimensions rated were: (i) Admissions (ii) Practice Learning (iii) Fitness to Practice (iv) Resources (v) Quality Assurance.

²⁵⁵ The earliest of these, from 1994 to 1997/98 used a standard costing approach to estimating the full costs to MU of its provision. From 2006 an actual costing methodology was used for directly attributable costs. However it was only from 2011 that the actual costing methodology was combined with a robust methodology for attributing central university overheads to produce reliable and valid estimates of the FEC position.

²⁵⁶ Sources: MU senior management; Walsh, D. (2013). Planned FEC assumed staff costs were for staff establishment.

²⁵⁷ Source: Archive 18, 'MU Financials 1993-2012', Middlesex University Accounts. Operating surplus was taken for all years to mean 'surplus after depreciation of tangible fixed assets at valuation and before tax'.

²⁵⁸ Source: Archive 19, 'NHS Income and Costs 2006', Middlesex University working papers.

2005/06 MU sustained an operating deficit of c. (£17.7m), the biggest deficit in its history²⁵⁹; the deficit was c. (13.5%) of MU's overall income.

- 2009: The overall contribution to MU overheads from income on its NHS contracts and associated activity for 2008/09 was forecast at c. £6.01m, c. 41% of forecast NHS contracts income; the contribution rate from MU's NHS pre-registration contract for 2008/09 was estimated at c. 50%.²⁶⁰ In 2008/09 MU recorded an operating surplus of c. £1.9m, equal to c. 1.2% of MU's overall income.
- 2011/12: MU recorded an operating surplus of c. £7.7m.²⁶¹ Also in 2011/12, in its tender submission to the GM for pre-registration adult nursing education MU forecast the contribution rate for 2012/13 would be c. 41%.²⁶² This was also forecast to equate to forecast FEC, i.e. an overall break even position for MU was forecast for that activity.²⁶³ However, in the forecast an SSR of 1:15.7 was assumed; if instead an SSR of 1:14, as recommended by the NMC and as requested by the GM had been assumed then the contribution rate would have been c. (4.7%) less and a negative FEC position (equivalent to c. (4.7%) of forecast income for pre-registration adult nursing programmes) would have been forecast.
- 2012/13: MU recorded an operating surplus of c. £12.83m, the largest in its history, both absolutely and relative to its overall income, c. 7.1%.²⁶⁴ For its NHS contracts and associated activity for 2012/13 MU forecast a contribution of c. £6.6m, a contribution rate of c. 46%, and a surplus on its FEC position of c. £1.26m.²⁶⁵ However, in the forecast an SSR of 1:17.8 was assumed. If instead, for its pre-registration activity, the NMC recommended SSR had been assumed then the forecast would have been a contribution rate which was c. (3%) less and a breakeven FEC position.
- In the same 2012/13 exercise, MU forecast the contribution and FEC position on its NHS contracts to 2015/16 under different scenarios. Assuming that price remained constant in real terms and that quantities of new commissions would continue at 2012/13 levels then a positive FEC position was forecast for 2015/16.²⁶⁶ In the event that there were reductions to the BMP of between 5% - 10% then the FEC position would be at about breakeven. However, if instead the assumed SSR levels for pre-registration activity had been increased to NMC recommended levels, then a negative FEC position would result. In the event of OBC as proposed in 2010 by the GM being introduced then the FEC position was likely to become strongly negative, even without any further reduction in BMP as was being proposed by HEE.

5.4.2.4 MU Assessments of the IOR Non-financial Performance and Future Prospects

Although the 2006 review initiated by MU top management was motivated by concerns about the financial sustainability of the NHS contracts and more generally about the survival of the University, the non-financial performance of the NHS contracts activity was also assessed. This assessment was based on four dimensions: (i) quality ratings of its provision by QAA and the NMC (ii) contract compliance performance levels (percentage level of commissions fulfilled) (iii) employment rates for

²⁵⁹ Source: Archive 18, 'MU Financials 1993-2012', Middlesex University Accounts.

²⁶⁰ Source: Archive 20, 'NHS Income and Costs 2009', Middlesex University working papers.

²⁶¹ Source: Archive 18.

²⁶² Source: Archive 21 'Adult Nursing Income and Costs 2012', copy of part of Middlesex University tender submission in November 2011 to NHS London (the GM). This assumed a unit price which was approximately the same as the BMP forecast for the same year.

²⁶³ Source: Archive 21, *ibid*.

²⁶⁴ Source: Archive 18, *ibid*.

²⁶⁵ Source: Archive 22, 'NHS Income and Costs 2012-2015'.

²⁶⁶ Source: Archive 22, *ibid*.

its graduating students (iv) the value added to graduating students taking account of the academic entry levels to the programmes. It was concluded that the performance on each of these dimensions was satisfactory or good.²⁶⁷ Future prospects were considered in terms of (i) output quantities – likely demand in the NHS and competition from other universities for capacity at placement providers and (ii) unit price (the prospective implementation of the BMP). While the overall forecast on these dimensions was positive there were risks and uncertainties identified which were beyond MU's ability to avoid. The potential impact of these risks was substantial and the mitigation strategies available to MU were of potentially limited effect.

In 2009 the non-financial performance was assessed on the same criteria used in 2006 review and a similar conclusion was drawn regarding the level of that performance. Future prospects were also similarly assessed. The rationale given by the GM for the 2008 LEC which was to introduce 'market dynamics' into NHS workforce education provision, was also considered. Future risks were identified and evaluated concerning NHS budgets (both overall and for education), placement capacity availability, and the potential impact on output quantities from developments in nursing as a graduate profession.²⁶⁸

The 2012 review also included assessments of non-financial performance on the criteria which had figured in the 2006 and 2009 reviews. However, the University context in which the 2012 review took place was different from before: MU top management had developed a 'new direction' for the University and as part of that had recast its strategic priorities, objectives, and the measures of success that it used. As a result the 2012 NHS contracts review was framed specifically in terms which aligned with the 'new direction' and strategic priorities of the University. The overall strategy for the NHS activities set out in the 2012 was to 'compete on quality'.²⁶⁹ A key part of that strategy was the performance of students in their placements, particularly of final year students.²⁷⁰ The measures of success were similar to those in previous reviews, including NSS scores, progression and completion rates of students, and employment rates (first destination statistics). Generally the performance in 2012 of the NHS contracts activity on many of these measures was found already to meet the University's targets for 2017.

Future prospects were assessed in the 2012 review taking account of the future need and demand for the NHS, future funding in a context of pressures nationally on NHS budgets and the consequential pressures on the overall NHS education budget (MPET) as well as more directly on placement capacity for the training of medical and non-medical occupations, and the further development of nursing as a profession and the likely developments in roles with nursing functions (such as health care assistants).

²⁶⁷ Source: Archive 23, 'Review of the NHS Contract December 2006'.

²⁶⁸ Source: Archive 24, '2009 Sustainability Review of NHS Contracts and Associated Activities'. Recommendations for management were made in the review that the risks should be included within the register of risks for the University (at School level) and action plans developed to mitigate those risks. Those recommendations were subsequently accepted and implemented by MU School management.

²⁶⁹ Source: Archive 25, 'NHS Contracts Strategy and Issues to 2017'.

²⁷⁰ Although supposed to be supernumery, students in placement particularly final year students were regarded by placement providers as a resource for the delivery of care to patients. Excellent performance in placement therefore was regarded as one of the best means to ensure good employability prospects for the students on completion of their programmes. Excellent performance in placement would also help MU to maintain placement capacity with its placement providers and possibly also to be favoured by placement providers when then there was additional placement capacity on offer.

S = Stable; TRI = Threatening entry to range of instability; U = Unstable										Stability Impact over Time									
IOR Key Outcomes: COMPONENTS & Dimensions		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
14 Performance (ii)		TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

The above stability impact assessments were based on:

- (i) MU's assessments of the non-financial performance of the IOR throughout the reference period were that it was good
- (ii) The financial assessments however were mixed: for the period 1995-2008, MU's NHS activities were making positive contributions to the University's overheads. By 2006 the contribution was estimated to be significant in absolute terms and this continued to be the case for the remainder of the reference period. However, the actual FEC position was known to be negative from the outset of the NHS contracts in 1995/96 (due partly to the 'mistake' but due also to MU's under-pricing). While FEC estimates of its NHS activity were not subsequently made until 2011/12 it was reasonable to suppose that MU's FEC position continued to be negative until c. 2009/10. This was because the unit prices were based on 1995/96 contract price and because the overall financial performance of MU for the years to 2008/09 was such that it could reasonably be assumed that the overhead burden arising from its NHS activities was not covered by MU's NHS income.

Consequently, for the period 1995/96-2008/09, the overall performance assessments of the IOR by the University were mixed: strategically the IOR was a good thing; however financially it was FEC negative but at the same time it was necessary to maintain the IOR because of the size of its contributions to University overheads. For the period 2011/12-2012/13 the NHS activities were estimated to be FEC positive. However, from 2008/09 to 2012/13 there had been a 25% decline in the output quantities supplied to and demanded by the GM in the IOR; thus, the overall stability of the IOR from the standpoint of MU continued to be mixed.²⁷¹

Also reflected in the assessments above for 2012/13 were the uncertainties and risks relating to years beyond the reference period, particularly relating to IOR dimension 11 - *OBC Risk* - which, depending on the outcomes of future negotiations with the GM, could have material negative implications for the future financial sustainability of the University's NHS contracts.

5.5 Analysis of IOR Stability over Time: Dimensions, Components and Overall

In this section an analysis is made of the stability over time of the IOR in its dimensions and principal components, as well as overall.

5.5.1 Stability over time on the IOR dimensions

The research inquiry findings about the stability over time on the IOR dimensions were summarised in Table 3(i).²⁷² From inspection:

²⁷¹ Sources: Archive 9 and 22. In 2012 the absolute size of the estimated contribution to the University's overheads from its NHS activities, was c. £6.6m p.a. and projected for 2015/16 to be £4.3m (Archive 22) and continued to be regarded by University top management as relatively substantial and important. In the University's August 2012 review of the NHS contracts (Archive 25), on being told the size of the current and projected contribution to MU's overheads from its NHS and associated activities, the response of the Deputy Vice-Chancellor to the writer was 'there was no question' that these activities would and should continue to be part of the University's portfolio.

²⁷² See supra, Chapter 3. The terms 'stable' and 'stability' here and in the remainder of this Chapter are used also to refer to the 'stability impact assessments' set out in Tables 3(i) and 4(i)/(ii).

- Stability on the IOR dimensions at the beginning of the IOR (1995) was different from stability at the end of the reference period (2013): 10 of the 14 dimensions of the IOR were 'stable' in 1995; in 2013, 6 of the 14 dimensions were 'stable' and 8 dimensions were 'threatening entry to a range of instability'.
- The greatest number of changes to stability from year to year occurred in 2005/06: 3 of the 14 dimensions became less stable (these dimensions changed from 'S' to 'TRI') and 1 dimension *became* stable. *Prior* to 2005/06, stability had changed on only one dimension (in 2003/04 on 'Duration'). From 2007/08 to 2012/13 stability changed on 5 dimensions.

Stability states over time on all dimensions were compared in 3 time periods corresponding to when a number of material changes occurred in the stability of the IOR dimensions, particularly in the *duration* dimension of the contracts component of the IOR. The results are presented in Table 9 below. The beginning and end years are shown for each of the 3 periods.

Caption to Table 9

- In the Table is shown the incidence of IOR in/stability for all IOR dimensions for selected years of the reference period.
- Also shown in the Table was a reduction in overall IOR stability took place from the beginning to the end of the reference period (1995 to 2013).
- Most of the reduction in IOR stability occurred over the period 2005/06 to 2007/08. These reductions were almost entirely consolidated in the remaining years of the reference period – 2008/09 to 2012/13.

Table 9 Stability Impact Assessments of the IOR Dimensions 1995/96 – 2012/13

	<u>S</u>	<u>TRI</u>	<u>U</u>
1995/1996	10	3	1
2004/2005	8	5	1
2005/2006	6	7	1
2007/2008	5	8	1
2008/2009	5	8	1
2012/2013	6	8	0

Key: S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable

Source: Analysis of findings presented in Table 3(i)

The reference period (1995/96-2012/13) comprised three distinctive periods: (i) 1995/96-2004/05 (ii) 2005/06-2007/08 and (iii) 2008/09-2012/13.

(i) 1995/96-2004/05: apart from price related dimensions, the IOR overall was stable on nearly all of its other dimensions during this period.

(ii) 2005/06-2007/08: The biggest shift in the stability of the IOR over the entire reference period 1995-2013 occurred between 2004/05 and 2007/08. As shown in Table 9 above, in 2004/05 the IOR had been stable on 8 of its 14 dimensions in 2004/05; in 2007/08 the IOR was stable on only 5 dimensions. The new overall pattern of in/stability on the IOR dimensions which emerged in 2005/06 continued broadly unchanged for the rest of this period, to 2007/08.

(iii) 2008/09-2012/13: there were several movements in stability at IOR dimension level during this period. Compared with 2005/06, IOR instability in 2008/09 had reduced on one dimension (dimension 1) and increased on two dimensions (dimensions 3, 8). Compared with 2008/09, IOR instability had by 2012/13 increased on one dimension (dimension 1) and reduced on two dimensions (dimensions 9 and 12).

5.5.2 Stability over time on the IOR components

The stability of the IOR was also analysed in terms of its principal components (contracts, outputs, and price). This was done by grouping together similar assessments on the relevant dimensions defined for each of the IOR components. A comparison was also made with the performance dimensions of the IOR. The results of the analysis are presented in Table 10 below.

Caption to Table 10

- In the Table is shown the incidence of IOR in/stability by IOR components over time. Example: In 1995/96 the contracts and outputs components were stable on their eight dimensions; the price component was stable on one dimension, threatening instability on two dimensions and unstable on one dimension; the performance component was stable on one dimension and threatening instability on its other dimension.
- In the Table are shown on which components of the IOR the main shifts in overall IOR stability occurred viz. between 2004/05 and 2007/08 on the contracts and outputs components of the IOR.

Table 10 Stability Impact Assessments of the IOR Components and Performance 1995/96 - 2012/13												
S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable												
	Contracts			Outputs			Price			Performance		
	S	TRI	U	S	TRI	U	S	TRI	U	S	TRI	U
1995/1996	4			4			1	2	1	1	1	
2004/2005	3	1		3	1		1	2	1	1	1	
2005/2006	1	3		3	1		1	2	1	1	1	
2007/2008	1	3		2	2		1	2	1	1	1	
2008/2009	1	3		2	2		1	2	1	1	1	
2012/2013		4		2	2		3	1		1	1	
Source: Analysis of findings presented in Table 3												

From inspection of Tables 3(i) and 10:

- The pattern of an overall reduction in the stability of the IOR over the whole of the reference period, which was identified at the level of dimensions, was repeated at the level of the IOR components 'contracts' and 'outputs'; all of the stability changes which took place in 2005/06 occurred in dimensions of the contract and outputs components of the IOR. This was not the case for the IOR component 'price', where until 2008/09 three of the four dimensions were not stable. However, stability on the price component subsequently increased so that for the last two years of the reference period, 2011-2013, three out of the four dimensions of 'price' were stable.
- IOR performance was stable on one dimension and 'TRI' on the other throughout the whole of the reference period, 1995/96 to 2012/13. Given the reducing stability from 2005/06 of the IOR on most of its other dimensions this was an interesting finding which suggested an unchanged stability on the performance of an IOR from both the buyer's and supplier's standpoint might coexist, for a time, with reducing stability in other components and dimensions of the IOR, particularly on dimensions of risk.

From MU's standpoint the assessments made by the GM of the performance of the IOR (which included taking account of the assessments made by the regulatory bodies of the outputs of the IOR)

were amongst its own criteria for assessment of the IOR performance. In contrast, from the GM's standpoint MU's assessments of the performance of the IOR were not amongst the criteria used by the GM for assessment of the IOR performance. This difference in criteria used by the GM and MU meant that from the standpoint of each of the organisations in the IOR different assessments might be made of the performance stability of the IOR with the possibility that from the GM's standpoint the IOR performance might be 'stable' while from MU's standpoint the IOR performance might be 'unstable'.

5.5.3 Change and stability over time of the IOR overall

On only 4 of the 14 IOR dimensions, was the relevant stability state impact assessment the same throughout the whole of the reference period: *output specification*, *basis of price – OBC risk* and *IOR performance (i)* each were 'stable' while *IOR performance (ii)* was 'threatening to enter a range of instability' (Table 3). The changes to the stability states of IOR dimensions occurred mainly during the latter half of the reference period, 2005/06 - 2012/13.

An unchanged state of stability on a particular dimension of the IOR did not necessarily mean there had been no events and/or changes in circumstances potentially affecting the stability state on that dimension. For example: (i) In relation to IOR dimension 5, an outcome of the consolidation of the professionalisation of nursing during the reference period was substantial change to the output specification, affecting the curricula of nursing programmes and their delivery. MU responded effectively to those (exogenous) changes so that the stability state on this dimension of the IOR remained 'stable' even during the period of greatest change (2001/02-2012/13); (ii) In relation to IOR dimension 14, the stability state was a 'threatened instability' ('TRI') on this dimension throughout the reference period. There was an underlying change in the source of that stability state: until 2008/09 the main source was the inadequacy of the basis of price relative to the FEC of MU; from 2009/10 the main source changed to become the relatively substantial decline in the GM's demand for output quantities that had begun in that year.²⁷³

The nature of the changes that occurred to the stability states on 10 dimensions of the IOR, meant that by the end of the reference period the IOR had become relatively less stable overall, both in regard to its dimensions and in regard to two of its three principal components (contracts, outputs). On the third component, price, stability increased during the last few years of the reference period – from 2009/10. By 2013 actual prices were \geq FEC; however, with the *basis of price* continuing to be predicated on 'affordability' from the GM's standpoint the issue was whether, from MU's standpoint, the threat of instability inherent in such a basis would eventually result in actual prices that were below its FEC and consequently change the stability state of *actual prices* from 'stable' to 'unstable' - with the further potential consequence that the IOR performance from MU's standpoint (dimension 14) would change from a 'threatened instability' to become 'unstable'.

The reduced stability of the IOR over the reference period occurred mainly on the 11 dimensions indicating IOR stability risk (dimensions 1-11): at the start of the reference period, 9 of these dimensions were stable and 2 were threatening instability. By the end of the reference period the position was almost reversed, with 7 of these dimensions 'threatening instability' and 4 were stable. This suggested that while the stability or threatened instability of the IOR on its performance component, both from the GM's standpoint and from MU's standpoint, had remained unchanged over the reference period, this was against a background where the overall risks of IOR instability, particularly from MU's standpoint, had substantially increased.

²⁷³ Source: IOR Commissions Quantities and Prices 1995/96 – 2012/13 – Archive 9.

Finding (2): The IOR tended to become less stable over time from the standpoint of the supplier (MU); reductions in IOR stability occurred in dimensions of risk relating to the future performance of the IOR.

Finding (3): From the standpoint of the GM, IOR performance stability was maintained throughout the reference period. This suggests that from the GM's standpoint, IOR performance stability can coexist with a reduction, from the supplier's standpoint, in IOR stability on dimensions of risk.

6.0 Introduction

The purpose of this Chapter is to present and analyse the empirical findings in regard to research question sets 3 and 4 of the inquiry, viz.

3. How did in/stability over time in the IOR come about? Specifically:

- **How were IOR relevant events, both exogenous and endogenous to the IOR responded to by the organizations in the IOR and what were the impacts of the responses to these events on in/stability in the IOR?**

4. Why did in/stability over time in the IOR come about?

These questions are dealt with below in six sections. In the first four sections interpretations and explanations of in/stability in the IOR are presented in four consecutive time periods: (i) 1995/96 - the start of the IOR (ii) 1996-2004 (iii) 2005-2007 (iv) 2008-2013. Each of these periods had different characteristics which were thought potentially to have had a bearing on the stability of the IOR. Over the periods 1995-2004 and from 2008-2013 the IOR contracts had a minimum duration of 3-5 years. The contracts for the period 2005-2007 were of one year's duration. 1995-96 marked the start of the IOR where the stability impacts were in part brought about by negotiations between the GM and MU which took place before the IOR was established.

In each of the first four sections, interpretations of how the in/stability in the IOR came about (research question 3) are followed by explanations of why the in/stability in the IOR came about (research question 4).

In the fourth section, dealing with 2008-2013, the interpretations are developed in greater detail in the form of 4 'power games' involving the organizations in the IOR which took place during this period. These power games are presented in 5 tables: the structure of each game, including the principal players/agents and their respective objectives, is presented in Table 16; the moves in each game and which players/agents played those moves, are set out in Tables 17-20.

In sections five and six the in/stability in the IOR is analysed taking the reference period as a whole. In section five, the relationships between historical dependencies and resource dependencies as determinants of in/stability in the dimensions of the IOR are outlined. In section six, instabilities and threatened instabilities in the IOR over the reference period are analysed and an argument developed to explain them. The argument draws together the explanations put forward in the previous five sections of the Chapter and develops these into an overall explanation of the instability and threatened instability in the IOR over the reference period.

6.1 1995/96: Initial Conditions and Historical Legacies; Mutual Dependence

IOR stability impact assessments for the first year of the IOR are summarised in Table 5(v) below. Events relevant to these stability impacts are summarised in Tables 5(i)-5(iv) in Chapter 4 above.

	Table 5(v): IOR Dimensions & Stability Impact Assessments 1995-1996	1995/ 1996
	Key: S = Stable; TRI = Threatening entry to range of instability; U = Unstable	
1	Duration	S
2	Termination	S
3	Compliance - Information; Management & Review	S
4	Placement Responsibilities	S
5	Output Specification	S
6	Output Floors and Ceilings	S
7	Short Run Variability of Output Quantities	S
8	Trends in GM Demand for Output Quantities	S
9	Basis of Price - Innovation	TRI
10	Basis of Price - FEC	TRI
11	Basis of Price - OBC Risk	S
12	Actual Price v Supplier's FEC	U
13	Performance (i)	S
14	Performance (ii)	TRI

6.1.1 Interpretation of IOR Stability Impacts 1995/96

To some extent the IOR stability impacts shown in Table 5(v) above reflected the outcomes of the negotiations in late 1994 between the GM and MU which established the IOR. However, although these negotiations were part of a 'negotiated tender' process they were rooted in and largely affected by the policy decisions based on WP10 and their implementation.²⁷⁴ At the outset of the negotiations between the GM and MU, there were already many initial conditions or historical legacies which had a bearing on the stability of the potential IOR between the GM and MU. At an NHS-HE inter-sector level the initial conditions included:

- An agreed aim of government policy makers, healthcare employers, educators and professional body regulators that the education and training for non-medical roles be developed so that these roles functioned effectively to meet the demands and increased expectations of modern healthcare, in particular that healthcare practice should be 'evidence based'.²⁷⁵
- The funding model for non-medical education, specifically that all of the funding for tuition and training and a substantial amount for student support would come from the state.²⁷⁶
- NHS-HE inter-sector institutional arrangements based on a purchaser-provider split in non-medical education. As it turned out, these arrangements took the form of M_{GS}.²⁷⁷ Arising from the latter an important initial condition concerned the process of price determination including the level at which this took place – this was to be a negotiation process between the GM and individual suppliers, such as MU.

²⁷⁴ See supra Chapter 4.

²⁷⁵ See supra Chapter 4.

²⁷⁶ See supra Chapter 4.

²⁷⁷ See supra Chapter 4

IOR dimensions 1-9, 11: At the potential IOR (GM and MU) level there were historical legacies consisting in the heads of terms of the negotiated tender and the substantive clauses under those heads: it is likely that these were similar to those which has been drafted by the GM as part of an ‘invitation to tender’ which had been used for a competitive tender process about a year earlier.²⁷⁸ These historical legacies at the potential IOR level included:

- The IOR contract terms relating to duration, termination, monitoring/compliance requirements and allocation of placement responsibilities (IOR dimensions 1-4).²⁷⁹
- The IOR requirements relating to outputs, specifically the NLCHS education provision covering outputs specifications, output quantities history and current demand/students (IOR dimensions 5, 7, and 8).²⁸⁰ Regarding IOR dimension 6 (): there is evidence to suggest that stipulations regarding *output floors and ceilings* were included in the 1995 contract;²⁸¹ these were likely to have been based on similar stipulations in the competitive tender.
- The basis of price in terms of what was to be paid for – this included the treatment of the costs of innovation (IOR dimension 9) and the allocation between the GM and MU of the risks relating to student attrition (IOR dimension 11).²⁸²

IOR dimensions 10, 12: These were the IOR dimensions where the IOR stability impacts were the outcome of the pre-IOR negotiations in late 1994 between the GM and MU. MU’s bid for NLCHS was substantially underpriced. Consequently when this bid was accepted by the GM, MU’s FEC did not become the basis of price (IOR dimension 10); subsequently, with no improvement in MU’s cost position to compensate for the under-pricing, MU’s actual FEC exceeded the actual contract price the actual price was less than MU’s FEC (IOR dimension 12).

6.1.2 Explanation of IOR Stability Impacts 1995/96

GM Objectives: Throughout the reference period, 1995-2013, there were three main objectives of the GMs in respect of NHS non-medical workforce education. These concerned (i) the requisite quality of the education provision. Also throughout the reference period, the output specification requirements of the GMs were based mainly on the requirements of the relevant professional body (particularly at the pre-registration level of education outputs). Fulfilment of these requirements was taken as the main proxy indicator of output quality; (ii) the requisite quantities of education

²⁷⁸ Source: MU management. The competitive tender process itself had been initiated as part of the implementation of the 1990 NHS Community and Care Act, which included provisions for non-medical education that were based on WP10.

²⁷⁹ There is evidence that many of the terms and substantive clauses in both the competitive tender and the negotiated tender originated in, and were similar to those in the various agreements which the NLCHS had with NHS Trusts prior to its merger with MU. For example: (i) *IOR dimension 1 (duration)* the 3 year rolling contract was the basis of the NLCHS 1993/94 contract with the Royal Free Hampstead Trust – Archive 31, clause 2.2; (ii) *IOR dimension 3 (compliance)* the quarterly monitoring procedures and annual contract review – Archive 31, clause 8.1 and clause 10.1; Archive 1, clause 2.3.

²⁸⁰ Again, many of these dimensions of the IOR had been specified in a similar way in prior NLCHS contracts. For example: (i) *IOR dimension 5 (output specification)* the Project 2000 curriculum – Archive 1, clause 1.2; (ii) *IOR dimension 7 (output quantities)* the determination of output quantities for a given year was determined over the course of a contracting cycle which began 12 months earlier. In this cycle the quantities for pre-registration provision would have been finalised c. 6 months prior to the start of the relevant year. Thus the output quantities which MU had for the year 1995/96 were those which it inherited from the contracting cycle finalised with the NLCHS the previous year – Archive 2 ‘*The Process of Contracting*’.

²⁸¹ Evidence that this was so is in a letter to MU dated 18th January 1995 in which the GM refers to ‘*terms of the (1995) contract relating to floors*’ – Archive 5.

²⁸² The allocation of risks between the GM and MU on student attrition was deduced from the definition of what was to be paid for which was set out by the GM in a letter to MU dated 18th January 1995 – Archive 5.

outputs; (iii) efficiency in the procurement of that provision. All of these objectives were prefigured in WP10 and in the ensuing policy framework and instruments that were developed.²⁸³ However, during the period 1993-1998, the GMs had two overriding objectives which were firstly to implement the integration of all of the Colleges of Health into the HE sector, and secondly to set up consortia of employers which would take over the GM function of education purchasing for their designated regions/areas. The direct involvement in NHS education purchasing of the actual GM in place in 1995 for MU's region (the RHA North Thames) was planned to be temporary; from the GM's standpoint its priority objectives at the time that negotiations with MU were taking place were to bring about the targeted mergers and to do so on an efficient, VFM, basis.²⁸⁴

MU Objectives: A key objective of MU during the 1990s was to grow the organization particularly in terms of student numbers. The potential merger with NLCHS was also perceived by MU as a significant opportunity in that respect – the potential extra student numbers would add c. 9% - 10% to MU's student numbers and also to its operating income.²⁸⁵ A merger with NLCHS was also seen as potentially securing the right kind of growth for MU: the historic outputs quality performance of the NLCHS had been evidently adequate – NLCHS had already established good relationships with a wide range of NHS employers, including some relatively large healthcare providers. Thus in terms of the potential impact of the NLCHS acquisition on MU's overall reputation for output quality the prognosis from MU's standpoint was good. In addition, MU top management assessed that the NLCHS subject area was complementary and potentially synergistic to MU's existing provision and the geographic fit with the University's presence in North London was good.²⁸⁶ The NHS was also seen by MU management potentially to open up opportunities for expansion of the University into medical education, particularly dentistry. In relation to the University's planned expansion in overseas student markets, the NHS opportunity was also perceived to ensure a useful balance and spreading of risk in the University's overall diversification strategy.²⁸⁷

Thus, at the time of the negotiations of the potential merger of NLCHS with MU there was compatibility between the growth objective of MU and one of two overriding objectives of the GM.

IOR dimensions 1-9, 11: As noted earlier, there were initial conditions or historical legacies on 10 of the dimensions of the potential IOR (dimensions 1-9 and dimension 11) and on 9 of these dimensions the equivalent of a positive stability for the IOR was indicated. Unfortunately, there was insufficient information available to the inquiry as to precisely why these stability impacts came about. All that is suggested here is that it was a combination of two factors (i) the initial conditions of the IOR negotiations in late 1994 and the historical dependence on prior outcomes of a

²⁸³ Burke, L. (1995), p. 385; Meerabau (2001)

²⁸⁴ Burke, L. (1995), p. 387; Meerabau, E. (2001); Following the replacing of the RHAs by the NHS Executive in 1996 (itself organised into 'regions'), employers led consortia were established. For the region/area relevant to MU, the North London Consortium (NLC) was established in 1997/98. The NLC took over the responsibilities for NHS education and training purchasing for its area, which included all those employers which provided placements for students with MU. The handover of education commissioning to the NLC from the NHS Executive was completed during 1997/98. Source: Walsh (2013).

²⁸⁵ Sources: Middlesex University Financial Accounts for the years 1993-94, 1994-95 and 1995-96; Middlesex University Student and Staff Statistics 1995-1996 HESA end July 1996 census and MU NHS Contracts Records – Archive 10 for summaries of these statistics.

²⁸⁶ Sources: MU senior management; Report of the Chair (1995) in 'Middlesex University Financial Accounts for the Year ended 31st July 1995', pp 3-4 – Archive 50.

At the time MU had also been pursuing its growth objective in North London as well as internationally: in 1994 the North London College of Dance became part of MU; see Table 5(iv) for a summary of the mergers of other Colleges with MP/MU over the period 1973-1995. From the mid-1990s MU also began to establish a substantial network of overseas offices.

²⁸⁷ Source: MU senior management.

competitive tendering process which had preceded those IOR negotiations (ii) compatibility in overall objectives of the GM and MU, which largely explained the stability impacts in 1995/96 on IOR dimensions 1-9 and 11.

IOR dimensions 10 and 12: In contrast, on these two dimensions of the price component, IOR dimensions 10 and 12, the stability impacts were not a given either in virtue of initial conditions or of historical outcomes. On these two dimensions of the potential IOR that there was a potential conflict of objectives between the GM and MU and consequently the potential for a negative IOR stability impact existed – in effect this was a fourth variable explaining IOR stability impacts on the two relevant dimensions. It transpired that the under-pricing of their bid for NLCHS by MU was due to a combination of mistakes in the calculation of direct costs, omissions relating to merger transition costs, and a charge for University overheads which was probably too low. The outcomes of the competitive tender process which preceded the IOR negotiations on price were also likely to have been influential on the stability impacts on the dimensions of the price component of the IOR: from the standpoint of the GM the competitive tender process had established a benchmark on the price dimensions specifically in relation to the potential merger of NLCHS with a HEI; from MU's standpoint the failure of their previous bid to take over the healthcare education provision of Barnet College might have prompted MU to make a 'keener bid' for a merger with NLCHS.²⁸⁸ In addition, from MU's standpoint, it was not known whether the GM had 'outside options' such that it could still reject MU's bid and explore NLCHS merger options with other HEIs.²⁸⁹

Without further information it is possible only to conjecture an explanation for the stability impacts in 1995 on IOR dimensions 10 and 12. In terms of resource dependence theory: (i) there was a mutual dependence between the GM and MU; from the GM's standpoint the key objective was to find and establish a suitable HE education provider for the GM's output demand requirements and from MU's standpoint the key objective was a suitable growth in its education activity (ii) on the face of it there was no power imbalance between the GM and MU. From MU's standpoint, it had not as yet made the resource commitments which would arise from a merger with NLCHS and there was also no resource criticality which was pressuring it to make such a commitment. MU's overall financial position was also sound: (i) its operating surplus to income was 3.9% for 1993/94 and 4.1% for 1994/95 (ii) its long term debt to capital employed stood at c. 45% over the period 1993-1995. For its part the GM still had time to develop and explore other university options to fulfil its merger of NLCHS objective. However, it is possible that MU *perceived* a power imbalance, in favour of the GM, between MU and GM and acted on that perception: the opportunity for the NLCHS merger was at that time the only available route for MU substantially to develop its activity in the NHS education market - a similar sized opportunity with similar potential synergies with its existing provision was not available to MU at that time.²⁹⁰ The strength of MU's overall operating and debt position may also have encouraged it to believe it had latitude to submit a 'keen price' in its bid for NLCHS.

²⁸⁸ MU's financial calculations in 1994-95 were based partly on relatively broad estimates, particularly of overheads costs and their attribution; it was not until over 10 years later, in 2005 that the University had developed the database which enabled it to calculate potential financial contributions to its overhead costs on a reliable basis – a basis which involved the precise attribution of relevant staff time and which also used the expected actual costs (rather than standard costs) of those staff. It was also even later, in 2011, before MU had developed a database along with a reliable methodology, which it could use for the attribution of its overhead costs to its NHS contracts activity. Thus, MU did not have a validated methodology to calculate the full economic cost of its NHS contracts until 2011.

²⁸⁹ The term 'outside options' comes from Muthoo (2000) and refers to one of the potential key factors which might influence the outcome of a bargaining process.

²⁹⁰ MP/MU had since 1991 run a full time undergraduate honours degree programme in nursing. The intake numbers on the programme were relatively small (c. 30 new entrants per year). Such a small programme did not provide a meaningful basis for MU organically to grow substantially its NHS education provision.

6.2 1995/96 – 2004/05: Collaboration and Growth; Historical Dependence and Resource Dependence

Key events, exogenous and endogenous to the IOR, along with the IOR stability impact assessments for the period 1995/96 – 2004/05, are summarised below in Table 11.

Caption to Table 11

- Summaries of events and when these occurred which were relevant to IOR stability impacts for the period 1995-2004.
- All events are grouped into the components of the IOR (contracts, outputs, price and performance) where these were most relevant.
- Some events were part of a continuous process (e.g. the consolidation of nursing as a profession); other events were discrete, one-off events (e.g. the Project 2000 review) but which may indirectly have had an eventual stability impact on dimensions of the IOR.
- Some events, also described as 'key events' (and highlighted in yellow in the Table) had a direct impact on the stability of the IOR e.g. 'IOR Tender/Price Negotiations' which impacted on some IOR price and performance dimensions.

TABLE 11: IOR Events 1995-2004											
	Events	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
	MU NLCHS Merger	X									
	IOR Group 1 Contracts	X	X	X	X	X	X	X	X	X	X
	GM Restructurings		X		X			X	X		X
	Project 2000 Review				X	X					
	Nursing Prof. Consolidation						X	X	X	X	X
	NHS Plan 2000						X				
	Health & Social Care Act 2001							X			
	NMET Levy	X	X	X	X	X	X				
	MPET Levy							X	X	X	X
	IOR Tender/Price Negotiations	X	X							X	
	MU/UCL buy Archway Site		X								
	MU Op. Surplus/Deficit %	3.1	2.9	-0.1	2.2	0.7	-5.2	-4.6	-1.6	-4.1	-8.7
1	Duration	S	S	S	S	S	S	S	S	TRI	TRI
2	Termination	S	S	S	S	S	S	S	S	S	S
3	Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S
4	Placement Responsibilities	S	S	S	S	S	S	S	S	S	S
5	Output Specification	S	S	S	S	S	S	S	S	S	S
6	Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S
7	Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S
8	Trends in GM Demand for Output Qtys	S	S	S	S	S	S	S	S	TRI	TRI
9	Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
10	Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
11	Basis of Price - OBC Risk	S	S	S	S	S	S	S	S	S	S
12	Actual Price v Supplier's FEC	U	U	U	U	U	U	U	U	U	U
13	Performance (i)	S	S	S	S	S	S	S	S	S	S
14	Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

6.2.1 Interpretation of IOR Stability Impacts 1996/97 – 2004/05

The stability impacts on each of the IOR dimensions in 1995/96 continued to be almost exactly the same year on year over the whole of the succeeding period 1996/97-2004/05. How these stability impacts came about and how they persisted over the period was due to a number of different factors and events, the relevance of which varied depending on the particular IOR dimension affected.

The first of these factors was the specified duration of the IOR contracts and the terms and conditions of the contracts.

IOR dimensions 1-4, 6, 9 and 11: The 1995/96 IOR contract was an annually rolling contract of three years duration. Unless changes were made to terms and conditions of the contract, this meant that from year to year the same consequences for IOR stability due to contract variables were likely to ensue. As it turned out, no changes were initiated or proposed by either the GM or MU to the 1995 contract when it came to the annual reviews of that contract in 1996 and 1997. Thus the stability

impacts on IOR dimensions 1-4, 6, 9 and 11 remained the same for the period 1996-2000 as they had for 1995/96.

When in 1998 the NLC was established as the new GM, the 1997 IOR contract was allowed to run for the whole of its specified duration (3 years) and replaced in 2000 by a new contract with a fixed duration of five years (i.e. up to 2005). Since in other respects the 2000 contract was closely modelled on the 1995 contract the stability impacts on IOR dimensions 1-4 and IOR dimension 6 continued to remain generally the same. The one difference was in IOR dimension 1: the duration of the 2000 pre-registration contract was specified as a fixed term and because this contract was not renewed before it had 2 years left to expire it meant that for the last two years of the contract there was a 'threatened instability' on this dimension of the IOR.

The second factor related to two sets of events exogenous to the IOR.

IOR dimension 5: The first set of these exogenous events was relevant to IOR dimension 5 and consisted in a review of Project 2000. Concerns had been raised in the 1990s by healthcare providers and others concerning Project 2000, particularly about whether the curriculum was too theoretically biased and whether newly qualified and registered nurses were 'fit for practice'. In response, the UKCC established a Commission for Education. After 'extensive consultation' this Commission reported in 1999 and recommended that the main focus of pre-registration education should be on the students' development of *relevant* competencies defined and assessed in terms of 'outcomes'.²⁹¹ Responsiveness to current and expected future healthcare needs was defined as the criterion for *relevance*; the standard of actual *outcomes*, particularly in practice, was recommended as a key criterion for determining 'fitness for practice'; in this connection the theory taught on the education programmes should support the practice. Subsequently, from c. 2001 these recommendations became incorporated into pre-registration curricula (including MU's curricula) as the 'Making a Difference Curriculum'; in 2001, the competence outcomes-based approach became the basis for the requirements of the UKCC, and also subsequently of the NMC,²⁹² for pre-registration education programmes.²⁹³ These requirements became the basis of the output specification – IOR dimension 5.²⁹⁴ It was MU's effective responsiveness to the new requirements which brought about a continued 'stable' impact on this IOR dimension.

IOR dimensions 7, 8: The second set of exogenous events was relevant to IOR dimensions 7 and 8, and consisted in the NHS Plan 2000 and the enactment of that Plan in the Health and Social Care Act 2001. Concerns had been raised in the 1990s by healthcare providers and others concerning the adequacy of NHS provision for both the quality and quantity of patient care. One of the problems identified was a shortage (relative to demand and need) of registered nurses and midwives.²⁹⁵ Under

²⁹¹ UKCC 'Fitness for Practice' UKCC 1999

²⁹² In April 2002 the UKCC was superseded by the Nursing and Midwifery Council (NMC). At the same time the English National Board ceased to exist and its education quality assurance function was taken over by the NMC.

²⁹³ UKCC 'Requirements for pre-registration nursing programmes' UKCC London 2001. NMC 'Standards of proficiency for pre-registration nursing education' NMC London 2004. The 'standards of proficiency' had been initially defined as 'competencies' – for practical purposes the two terms were interchangeable. To gain entry to the register, applicants had to achieve the standards of proficiency which were stipulated by the NMC.

²⁹⁴ More generally all of these developments also marked the beginnings in the 21st century of the consolidation of the professionalisation of nursing.

²⁹⁵ 'Widespread shortages of NHS staff, particularly nurses were reported from 1994/95 to 2000.' – Walsh, D (2013), p. 16. Of particular importance to the overall supply of nurses was the number of newly qualified entrants to the professional register from UK sources. From 1989 to 1994 there had been a 26% decline in

the NHS Plan 2000, priority was to be given to increasing capacity in the NHS, particularly of consultants, general practitioners and nurses. To bring this about there was to be '*a substantial expansion in medical and nursing education*' extra resources were to be provided for training so that a further 20,000 nurses, 6500 therapists, 7500 consultants and 2000 GPs would be added to the professional registers by 2005.²⁹⁶ With the implementation of the NHS Plan 2000, the NHS grew rapidly – between 2000 and 2005 the growth was c. 60%; the latter compared with a growth of 50% over the previous 10 years.²⁹⁷

The planned extra investment in training of new nurses had been anticipated to some extent by the newly formed employers training consortia which increased the output quantities they demanded from the time of their formation in the mid 1990s.²⁹⁸ Over the period 1997/98 to 2000/01 the NMET budget was increased in real terms by c. 25%; from 2001/02 to 2004/05 the MPET levy was increased by c. 40% in real terms.²⁹⁹ The increases in these national budgets were distributed to the M_Gs directly in relation to their historic allocations. At the M_G level allocations were made by the GM on a similar basis, i.e. over the period 1995/96 to 2004/05 the GM allocated its demand for output quantities between its various HEI suppliers directly in relation to their historic allocations. Thus, in terms of the output quantities demanded of MU, the period 1995/96 to 2004/05 was mainly one of substantial overall growth: between 1995/96 to 2001/02 output quantities demanded for MU's pre-registration provision increased by c. 47% - this increase was consolidated in subsequent years, up to 2005.³⁰⁰ Although in some years (1997/98, 1998/99, 2000/01) the sizes of the increases in the GM demand for output quantities exceeded the output ceilings stipulated in the IOR contracts for the period, MU was able to agree the increased demand and respond effectively, a key part of which was enabled by a commensurate increase in the quantities of clinical placements made available by healthcare providers. Consequently, the stability impacts on IOR dimensions 7 and 8 were mostly 'stable' over the period 1995-2004. In regard to the size of changes in GM output quantities demand (IOR dimension 7) the main exceptions to 'stability' were firstly in 1997/98, 1998/99, 2000/01: in all of these cases the GM *increased* its annual demand by more than the output 'ceiling' which had been agreed in the IOR contract. In 2002/03 the GM *reduced* its overall demand for output

entrants to nursing programmes in the UK. A consequence of this was during the period 1990/91 to 1997/98 there had been a c. 37% decrease in the number of new UK registrants on the professional register. Sources: CoDH (2006) 'Briefing on the current crisis in nursing and allied health profession education in England' 14th August 1986, paragraph 12 – Archive 5; Buchan J. et al (2013), p.17, Figure 8

²⁹⁶ Source: NHS Plan 2000, p. 11 and p. 51.

²⁹⁷ Source: Harker, R. (2012), '*NHS funding and expenditure, Standard Note SN/SG/724*', Social and General Statistics, House of Commons Library, London. Available at: <http://www.nhshistory.net/parlymoney.pdf> Accessed February 2014. See also Table 6 above (p.61)

²⁹⁸ From 1990/91 to 1997/98 the number of new UK registrants on the professional register decreased by c. 37%. However, between 1997/98 and 2005/06 there was an increase of c. 42% in the number of new UK entrants on the professional register of nurses. Sources: Buchan (2012), p. 12; Buchan et al (2013), p.17.

Until 2000/2001 output quantities demanded by GMs collectively were based on a bottom up workforce planning process – employers forecast their workforce requirements including the requirements for new professional staff entering the healthcare workforce by occupational group; the GM for each region collated those forecasts and used them as the basis for calculating the future education demand requirements. With the establishing of the Workforce Development Confederations (WDCs) in 2001 the process became a top down process with regional and local area requirements derived from national projections made by the WDCs. This remained the position until 2009/10. Thus until 2000/01 and in a context of increasing budgets for workforce education the GM had effective control of the output quantities it demanded.

²⁹⁹ Source: Department of Health, August 2014, response to FOI request – Archive 51; estimates of the budget allocations in real terms over the relevant period were made using the movement in national pay settlements for academic staff – source HESA.

³⁰⁰ Source: GM-MU communications and contract documentation – Archive 9 for yearly figures.

quantities for post-registration programmes by c. 25%. This was a response to the lack of take up of places on post-registration programmes by the healthcare employers. In regard to trends in GM output demand (IOR dimension 8) the exceptions to stability occurred in 2003/04 and 2004/05: in those years the trend in the GM output quantities demand began to decline. While the overall demand for new non-medical staff was still buoyant and the funding for expansion which was provided under the NHS Plan 2000 was still available, healthcare employers had increasingly met their requirements for new staffing by recruiting suitably qualified staff from outside of the UK. International recruitment which had accounted for only 10% of new recruits rose rapidly in the early 2000s mainly because the output of newly qualified staff from the home education providers could not keep pace with the sudden substantial increases in employer demand for those staff.³⁰¹

IOR dimension 10: The third factor affecting IOR stability impacts during the period 1996-2004, particularly on the price component of the IOR, was a change in the basis on which price was determined. The context of the 1996 negotiations between the GM and MU was different to what it had been in 1995: an IOR had already been established (a 3 year rolling contract was in force) and a baseline contract price had been established (as the outcome of the 1995 negotiations) where previously none had existed. In the 1996 negotiations MU proposed that increases be made to the contract price via uplifts to the unit prices for output quantities and the inclusion of additional costs items to correct the previous under-pricing. These proposed increases and additions were not agreed however and the outcome of the 1996 negotiations was that the unit prices actually determined were based almost entirely on the 1995/96 prices, with some adjustments made for inflation ‘and efficiency gains’.

Thus although in 1996 the overall price agreed between the GM and MU was still a ‘contract price’ the basis of that price (IOR dimension 10) consisted mostly in a combination of unit prices and unit costs which were derived from the prices and output quantities agreed for the previous year, 1995/96, and adjusted for agreed inflation and efficiency savings factors.³⁰² With one exception, unit prices and the basis of those prices once firmed up as an outcome of the 1996 negotiations continued on those lines (with annual adjustments as noted above) for the rest of the period, 1996/97-2004/05. The exception occurred in 2003/04 when following for an unusual c. 25% reduction in its annual demand for post-registration outputs which had been made in 2002/03 (see discussion on dimension 7 above), MU used its discretion under the contract to enter negotiations with the GM for a new unit price. MU’s case to the GM was based on the principle that the unit price should cover the MU’s costs and submitted detailed evidence to show that the unit price on post-registration had not kept pace with the increases in MU costs; the GM accepted MU’s case and agreed to an uplift of 25% in the unit price for post-registration outputs.³⁰³ Nonetheless, the stability impacts on IOR dimension 10 (‘threatened instability’) continued.³⁰⁴

IOR dimensions 12 and 14: The outcome of the 1996 negotiations was that the actual price continued to be less than MU’s FEC. This outcome was affected by a fourth factor – MU’s operating performance. The latter partly reflected MU’s performance in ‘cost reduction’ and potentially affected MU’s FEC levels and thus the amount of financial contribution MU sought from output quantities.³⁰⁵ Over the period 1996-2004/05, MU’s overall operating position declined substantially:

³⁰¹ Buchan et al (2011, 2012, 2013)

³⁰² See also Chapter 5 above under findings on IOR stability impacts for IOR *dimensions* 10 and 12. Details were sourced from Walsh (2013) -Archive 145, and from Archive 27. The format and level of detail of MU’s price proposals were in line with requirements which had been specified by the GM.

³⁰³ Source: MU letter to the GM 26th February 2003 – Archive 146.

³⁰⁴ Post-registration quantities comprised only c. 10% of the overall IOR contract value. Source: Archive 9

³⁰⁵ The financial contribution that any given operating area, such as MU’s NHS contract activity, would require to make depended on the amount of overheads attributed to that area.

MU sustained operating deficits in six of the nine years, five of those occurring in the final years of the period, culminating in 2004/05 in the largest deficit in MU's history – (£17.7m) which was c. (8.7%) of MU's overall income for that year.³⁰⁶ This performance added to the negative price effect on IOR dimension 12 and together these outcomes brought about the threatened instability impact on IOR dimension 14.

6.2.2 Explanation of IOR Stability Impacts 1996/97 – 2004/05

Variables which were relevant to explanations of the 1995/96 IOR stability impacts - (i) compatibility in the objectives of the GM and MU (ii) historical dependencies of the IOR (including the initial conditions of the IOR) and events (both exogenous as well as endogenous to the IOR) (iii) conflict in the objectives of the GM and MU and their consequent power dependence responses to that conflict - continued to be relevant to explanations of stability impacts over the period 1996-2004.

Compatibility and Conflict in GM and MU IOR Objectives: Following completion of the NLCHS-MU merger in 1995, the IOR objectives of the GM over the period 1996/97-2004/05 were (i) the performance of the IOR should comply with the education outputs quality/specification and quantities requirements of the GM (ii) efficiency in procurement of the education provision.³⁰⁷ MU's IOR objectives concerned the performance of its NLCHS acquisition, in particular to maintain outputs quality (so that MU's reputation for education quality was maintained to that extent) and consolidate the gains MU had made in student numbers via the acquisition while also being responsive to any new outputs demands.³⁰⁸

Thus the compatibility of objectives between the GM and MU in regard to IOR performance on compliance with requirements on output quality/specification and on outputs quantities which had existed in 1995, continued over the rest of the period, 1996/97-2004/05. A factor which strengthened the compatibility of objectives of the GM and MU was the substantial growth in the GM's demand for output quantities over the period 1997 to 2001 and which was subsequently mostly maintained at the increased levels to 2003.³⁰⁹

The potential conflict between the objectives of the GM and MU continued with regard to price: for the GM, efficient procurement meant a continued application of the unit prices which had been established in 1995/96. However, unless MU was able to effect a substantial productivity improvement, the GM's pursuit of its efficiency objective meant it was most unlikely that MU would ever cover its FEC on its NHS contract.

³⁰⁶ Source: MU annual financial accounts 1995-2013 - Archive 18.

³⁰⁷ Sources: (i) GM objectives for the period 1995-2004 were inferred from IOR contract documentation, including the terms, conditions and the compliance requirements specified in the IOR contracts, e.g. the 2000-2005 pre-registration contract (Archive 32), and in contract correspondence e.g. GM letter to MU of 18th January 1995 (Archive 4) (ii) MU senior management.

³⁰⁸ Source: MU senior management.

³⁰⁹ Source: IOR contract documentation – Archive 9 for summary of GM output quantities demands for the period 1995-2013.

Historical and Power Dependence: Historical dependence processes and power dependence responses relevant to explanations of IOR stability impacts for the period 1995/96–2004/05 are summarised in Table 14(i).³¹⁰

Caption to Table 14(i)

- Shown are the types of historical dependence (HD) processes associated with stability impacts by IOR dimension for period 1995/96–2004/05.

Example: Dimension 1

<u>Years</u>	<u>Stability Impact</u>	<u>HD Process</u>
1995/96–1999/2000	S	Initial Conditions (IC)
2000/01–2004/05	S → TRI	Founder (F1)

- Shown for each dimension is the incidence of the types of HD processes for each year of the period. Example 1995/96: Initial conditions – 12 dimensions; Founder – 4 dimensions

Shown are the occurrences of particular types of power dependence responses by the GM and MU respectively for each year of the reference period. Example 1995/96: MU – Cost Reduction/Productivity Improvement; GM – Rent Extraction

³¹⁰ Numbers in Table 14(i) under IC and HD Processes for each year indicate the number of IOR dimensions in which these processes occurred. 'X' indicates where a particular power dependence response occurred in a given year.

TABLE 14(i): IOR Stability, HD Processes and Power Dependence Responses 1995/96 - 2004/05										
Historical Dependence Key: IC = Initial Conditions; F = Founder; FG = Forgetting; BU = Burden of History										
IOR Stability Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable										
IOR Key Outcomes: <u>COMPONENTS & Dimensions</u>	Stability Impact over Time									
	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
CONTRACTS										
1 <i>Duration</i>	IC	IC	IC	IC	IC	F	F	F	F	F
2 <i>Termination</i>	IC	IC	IC	IC	IC	F	F	F	F	F
3 <i>Compliance - Information; Management & Review</i>	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
4 <i>Placement Responsibilities</i>	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
OUTPUTS										
5 <i>Output Specification</i>	IC	IC	IC	IC	IC	F	F	F	F	F
6 <i>Output Floors and Ceilings</i>	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
7 <i>Size of Short Run Variability of Output Quantities</i>	IC	FG	FG	FG	FG	FG	FG	FG	FG	FG
8 <i>Trends in GM Demand for Output Quantities</i>	IC	IC	IC	FG	FG	FG	FG	FG	FG	FG
PRICE										
9 <i>Basis of Price - Innovation</i>	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
10 <i>Basis of Price - FEC</i>	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1
11 <i>Basis of Price - OBC Risk</i>	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC
12 <i>Actual Price v Supplier's FEC</i>	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1
PERFORMANCE										
13 <i>Performance (i)</i>	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG
14 <i>Performance (ii)</i>	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG
Initial Conditions & Historical Dependence Processes										
Initial Conditions	12	9	9	8	8	5	5	5	5	5
Founder	4	4	4	4	4	7	7	7	7	7
Forgetting		3	3	4	4	4	4	4	4	4
Power Dependence Responses										
MU <i>Internal Cross-subsidy</i>	x	x	x	x	x	x	x	x	x	x
GM <i>Rent Extraction</i>	x	x	x	x	x	x	x	x	x	x
GM <i>Output Demand Changes</i>		x	x	x	x	x	x	x	x	x

IOR dimensions 1-9 and 11: As shown in Table 14(i) above and as previously discussed, the stability impacts in 1995/96 on IOR dimensions 1-9 and 11 were largely the outcome of historical dependencies on the initial conditions (IC) of the IOR. This continued broadly to be the case over the period 1996/97 to 1999/2000; the annual rolling nature of the IOR contract provided both the GM and MU the formal opportunity to seek change to the rules of the IOR on any of its dimensions during this period. However neither the GM nor MU sought any change during that period on IOR dimensions 1-9 and 11. The GM's second medium term special objective noted earlier - to establish an employers' consortium and then to hand over its GM function to that consortium – continued to be relevant. The rolling nature of the contracts, their duration (IOR dimension 1) and conditions of termination (IOR dimension 2) which had been consistent with establishing the MU-NLCHS merger

on a trial basis (subject to annual review), was also consistent with the GM's second special objective and continued to be so.

IOR dimensions 1, 2: The successful completion of that trial period was effectively recognised in the 2000/01 pre-registration contract; in that contract the duration (IOR dimension 1) was set at 5 years and termination (IOR dimension 2) continued to be applicable only to where material un-remedied breaches of the contract had occurred. Taken together, the conditions on both of these dimensions functioned to establish the IOR on a more permanent longer term basis. Thus a new historical dependence ('Founder') which came about in virtue of the 2000 pre-registration contract was established on these two dimensions of the IOR.³¹¹ In effect, this contract functioned for the period of its specified duration, as a lock-in mechanism for the impacts on these dimensions of the IOR.

IOR dimension 3: The information and reporting requirements which had been specified by the GM in 1995 continued unchanged over the period 1996/97 to 2004/05; the GM had made clear in 1995 at the outset of the IOR that it did not want '*an industry*' to be created by the development of burdensome/complex information requirements.³¹² Subsequently, the associated standardisation of the GM's contract monitoring procedures functioned as a self-reinforcing mechanism for the stability impacts on this dimension of the IOR.

IOR dimensions 4, 5, 6, 9 and 11: Arrangements established on these IOR dimensions also continued unchanged over the period 1996/97 to 2004/05.³¹³ The stability impacts on all of these dimensions were brought about by the lock-in mechanisms of successive contracts. However, during the period there were also underpinning self-reinforcing processes which affected IOR dimensions 4 and 5: in regard to IOR dimension 4, the shared responsibilities of the GM and MU for placement established in the 1995 contract had reflected a historical legacy (initial conditions) which itself had been grounded in a characteristic of the production technology used for education outputs, viz. that the latter were the outcome of joint inputs by HEIs (for the academic input) and NHS employers (for the practical inputs during placement).

In regard to IOR dimension 5 the requirements of the professional regulatory body meant that at pre-registration level the education provision for many of the non-medical occupations, including nursing and midwifery, was equally split by duration, learning and assessment requirements between the academic periods in the HEI and the placement periods in the healthcare providers. In addition to providing placements employers also provided the day to day supervision of the students in placement as well as their mentoring. Furthermore, while the formal position was that all pre-registration students were supernumerary, the reality was that many of those students, especially final year students, contributed directly to patient care. Employer representatives also participated in the interview part of the selection processes in the recruitment of students.

Given all of these factors, the nature of the education provision and its delivery came to be considered by healthcare employers and HEIs to have an intrinsically collaborative nature in which

³¹¹ The stability impact on the duration of the contract (IOR *dimension* 1) changed to 'TRI' in 2003/04. This was an unintended consequence of the nature of the fixed term contract which was agreed. Unless a new contract was made by the beginning of the penultimate year of the fixed 5 year term, then automatically the IOR stability would become TRI on that *dimension*. As it turned out, this is what happened.

³¹² Source: Letter from GM to MU dated 18th January 1995 – Archive 5.

³¹³ As noted earlier, the IOR outputs specification changed following the evaluation of Project 2000 in 1999. The relevant conditions in the IOR contracts were drawn so that such changes were automatically applied to the IOR outputs specification. However, given the materiality of the change represented by the introduction of the 'Making a Difference' curriculum, this has been reflected in Table 14(i) as a new historical dependence ('Founder') superseding the previous initial conditions dependence on IOR *dimension* 5 from 2000/01.

both of those parties had an equal role. This perception was reinforced further following the establishment of the NLC in 1998 and its takeover of the role of GM. With employers via the NLC now directing engaging with the HEIs at all levels of the IOR, the delivery of the education provision came to be regarded as a 'partnership' between the employers and the HEIs (such as MU). 'Partnership Boards' which included both HEI and employer members and which had the remit to monitor and review the effectiveness of the HEI-employer collaborations as well as the curricula and plans for their development took on added significance, functioning not only as an important part of the IOR communications structure but also in legitimising the IOR overall as a 'partnership' enterprise.³¹⁴

IOR dimensions 7 and 8: New outputs quantities demands were made annually by the GM. During the period 1996-2004 those quantities were either the result of the amalgamation of the bottom up generated employers' demands (to 2000/01) or the result of top-down national/regional planning (to 2004/05 and up to 2009/10). GM allocations to its suppliers (including MU) of its outputs demand were based on the previous year's allocations made to those suppliers, adjusted for the latest year's planning inputs. Given the annual carry forward of the prior outputs demand which was still in the education supply 'pipeline', at an IOR level the stability impacts on IOR dimensions 7 and 8 were a function of the most recent history of outputs demands; thus the type of historical dependence on these dimensions as shown in Table 14(i) was 'FG' ('Forgetting').

However at the overall M_G level, GM outputs demand was always subject to affordability constraints (from the GM's standpoint); thus the size of the overall NMET budget/MPET levy and how that varied from year to year were further factors which ultimately determined the stability impacts on IOR dimensions 7 and 8. As previously discussed the size of the overall NMET budget/MPET levy was not only a function of the historic size of those budgets but was also determined by the size of the overall NHS budget which in turn was the outcome of macro-environmental events and political decisions about resources and their allocation.

IOR dimensions 10, 12, and 14: The conflict of objectives between the GM and MU on the price component of the IOR which had existed in 1995/96 continued over the period 1996-2004. The disadvantageous outcome in 1995 to MU on contract price provoked an attempt by MU in 1996 to renegotiate price. However, the outcome of these negotiations between MU and the GM was to leave the basis of price (IOR dimension 10) unchanged from what had been established in the first IOR negotiations in 1995 – MU failed to attain any of its objectives on price in the 1996 negotiations.

This outcome can be explained as due to a combination of self reinforcing processes of historical dependence and change in the relations of power between the GM and MU, in favour of the GM, which had occurred: (i) self-reinforcing processes were relevant to the price component dimensions of the IOR because the annual recurrent budgets set for the GM usually took its previous year's expenditures as a baseline. Since these expenditures reflected prices paid by the GM on its IOR contracts generally, and since these prices were predicated on a unit price basis, then beyond changes to sanctioned budgets to allow for volume changes, there was stickiness in the GM budgets

³¹⁴ Source: MU senior management; Walsh (2013) – Archive 85. The 'Partnership Boards' consisting of senior and middle management representatives met three or four times each year. The quality of the communications and of the interaction between HEIs such as MU and the employers was also probably assisted by affinities in the backgrounds of their respective staff: all of the HEI academic staffs were professionally qualified in one of the healthcare professions; many had spent time in the NHS with the very employers which were now the 'partners' of their respective HEIs and many had been colleagues of those employers' representatives.

In his history of the NHS, Rivett (2014) notes the 'partnership' ethos underpinning the HEI-NHS employer relationships at the time.

sanctioned for subsequent years. In effect, once unit prices based on the 1995/96 outcomes had become established then these, together with the price outcomes on its other IOR contracts, functioned as self reinforcing mechanisms in determining the budget allocations to the GM and subsequently set a limit to the allocations that the GM was willing and able to make to its suppliers.

(ii) By the time of the 1996 negotiations MU had made relatively substantial commitments to the IOR: NLCHS had become a part of MU so that all of the associated resources and costs associated with the merger were now wholly MU's; MU had expanded its estate with the purchase of an additional campus at Archway, the intended main purpose of which was as a resource to support the delivery of MU's NHS contract education provision.³¹⁵ Compared with the context of the first IOR negotiations which took place in 1994/95, both of these commitments by MU were new. In effect, through its merger with NLCHS, MU had taken on resources which were substantial relative to MU's overall recurrent operating performance and to its asset base.³¹⁶ These resources were also specialised and could only be useful to MU in its NHS contract activities. Hence a critical resource dependency of MU on the continuation of the IOR and MU's continued participation in the M_G had been created. In contrast to MU's dependency which had increased in the dyad with the GM, the GM's dependency remained unchanged; in the event that MU terminated the IOR the GM continued to have outside options – other university suppliers could be found to replace MU.

As an organization with other activities (in 1996 the NHS proportion accounted for c. 9%-10% of MU's total activity by volume and value),³¹⁷ MU was not wholly dependent for its survival on its activities in the M_G. In the event that the GM began to extract quasi-rents there were options open to MU in how it could sustain its NHS activity. These options included (i) cost reduction through bearing down on its costs university-wide (albeit in a context where staffing costs were determined mainly under nationally negotiated agreement arrangements and where in many subject areas SSRs were 'strongly recommended' and monitored through annual monitoring reviews by the relevant regulatory professional body so that these costs were less amenable to MU's direct control) and (ii) cross-subsidisation from its HEFCE contract and international activities.

The actual power dependence responses to the outcome of the 1996 price negotiations by the GM and MU were: (i) the GM continued extraction of rents from MU (ii) MU cross-subsidised its NHS activity. The outcome of the 1996 negotiations however was also consequential for the stability impacts on IOR dimensions 10, 12 and in subsequent years up to 2004/05. The effect of the 1996 outcome on price was to establish and legitimise the basis of price at unit price levels which were in line with 1995 levels and which were below MU's FEC. Given that only incremental adjustments based on inflation and year on year efficiency improvements were made to unit prices in subsequent years, a consequence of the outcome on price negotiations in 1996 was to reinforce the historical dependence (F1) founded in 1995/96 in respect of IOR dimensions 10, 12 and 14. The underpinning

³¹⁵ The Archway campus was a joint purchase of MU and UCL and was completed in 1996.

³¹⁶ The resource criticality of the NHS contract to MU was inferred from the income to MU from its NHS contract and MU's overall financial operating profit at that time. The annual income to MU from its NHS contract activity in 1995/96 was c. £8m; this was c. 300% of MU's operating surplus (Archive 18 was the source of the base data). If MU's NHS contract was not rolled forward in 1996 (with the consequence that the contract would expire within a further two years by the end of 1997/98) and given MU's inability to deploy its relevant specialised NHS resources to non-NHS income opportunities (even if such opportunities had existed) then the loss of income to MU in 1996/97 alone would have meant MU's overall operating position would have changed in 1996/97 from operating surplus to an operating loss for that year. Added to that would have been the costs to MU of initial downsizing and eventual withdrawal from the IOR which would have been sustained over the period 1996-1998, and consequently the prospect of MU sustaining relatively significant operating deficits during that period.

³¹⁷ The share of MU total student FTE and MU total income accounted for by its NHS activity was sourced from : Archives 10 and 18 respectively.

self-reinforcing mechanism for the historical dependencies on these IOR dimensions was the continuing level of resource dependency of MU in the IOR and the consequent power imbalance between the GM and MU.

As evidenced in the outcome of the 2003 negotiations between the GM and MU, post-registration was the one part of the education provision where price determination proved to be more flexible. There is little information about why the GM decided to agree MU's request for a 25% increase in the unit price (see Chapter 5 above). What is known is:

(i) In 2003 post-registration was c. 15% of MU's overall NHS contract activity and consisted of short courses.³¹⁸ This latter characteristic distinguished it from the rest of the NHS contract activity which consisted of 3 and 4 year programmes. Apart from some programmes for the training and development of mentors the post-registration part of its NHS activity could be treated by MU on a stand-alone basis commercially.

(ii) MU had concluded that its direct costs in this area were not being covered in this area.³¹⁹ In the context of the 2003 negotiations an exit by MU from the M_G in that part of its activity in the M_G was a viable option both logistically and economically. Given the latter there was in relation to post-registration provision a different balance of power between the GM and MU: in a context where MU's direct costs were not being covered post-registration activity was not resource critical to MU – quite the opposite. Consequently in this area there was not a power imbalance between the GM and MU as there was on the other 85% of the IOR.

(iii) Compared with the previous year 2002/03, the overall MPET budget for 2003/04 had increased by over 11%.³²⁰ Consequently the GM had more resources at its disposal to accommodate increases in costs in 2003/04.

(iv) The relatively minor proportion of the post-registration activity to the overall IOR also meant that from the GM's perspective the stakes were commensurately smaller. This became even more the case when in 2003/04 the GM reduced its demand for post-registration output quantities from MU by a further c. 10%.³²¹ Thus in combination with the increases in its overall education budgets the GM was in a position to agree MU's request for a price increase, notwithstanding the size of it, and perhaps was consequently also more readily persuadable by the merits of MU's case for an increase.

³¹⁸ Source: IOR Commissions Quantities and Prices 1995/96–2012/13 – Archive 9.

³¹⁹ Source: MU letter to GM re post-registration unit price 26th February 2003 – Archive 146.

³²⁰ Source: MPET and NMET Budgets 1997/98–2012/13: FOI Response from the DH, August 2013 – Archive 51.

³²¹ Source: IOR Commissions Quantities and Prices 1995/96 to 2012/13 – Archive 9.

6.3 2005/06 – 2007/08: Exogenous Change; Drift and Adaptation

As noted in Chapter 5, the biggest shift in the stability of the IOR over the entire reference period 1995-2013 occurred between 2004/05 and 2007/08. All of the stability changes between those years occurred in dimensions in the contract and outputs components of the IOR, and arose from events exogenous and endogenous to the IOR. These key events, along with the IOR stability impact assessments for the period 2005/06 – 2007/08 are summarised below in Table 12.

Caption to Table 12

- Summaries of events and when these occurred which were relevant to IOR stability impacts for the reference period 2005-2007.
- All events are grouped into the components of the IOR (contracts, outputs, price and performance) where these were most relevant. However it should be noted that some events had relevance on more than one dimension and which went across different components of the IOR e.g. 'IOR Tender/Price Negotiations'.
- Some events were part of a continuous process (e.g. the consolidation of nursing as a profession); other events were discrete, one-off events but which may indirectly have had an eventual stability impact on dimensions of the IOR (e.g. the 'NHS Financial Crisis' of 2005).
- Some events, also described as 'key events' (and highlighted in yellow in the Table) had a direct impact on the stability of the IOR e.g. 'BMP delay and Implementation' which impacted on some IOR price and performance dimensions.

TABLE 12: IOR Events 2005-2007													
Events	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008
Nursing Prof. Consolidation						X	X	X	X	X	X	X	X
CoDH established		X											
IOR Group 2 Contracts											X	X	X
National Standard Education Contract												X	
GM Restructurings		X		X			X	X		X		X	
NHSL established												X	
LDHG established												X	
MPET Levy							X	X	X	X	X	X	X
Health & Social Care Act 2003									X				
PBR Hospitals Funding									X	X	X	X	X
New Contracts: Consultants; GPs									X	X			
First Foundation Trusts created										X			
NHS 'Reconfigurations'										X	X	X	X
NHS Trusts in overall deficit										X	X		
NHS 'Financial Crisis'											X		
MPET ring fence lifted											X		
HE 'boom-bust' lobbying											X	X	X
NAO NHS Education Review							X						
BMP Initiative							X	X	X				
IOR Tender/Price Negotiations	X	X							X		X	X	X
MU/UCL buy Archway Site		X											
BMP delay & implementation											X	X	X
HE Tuition Fees: £1k/£3k				X								X	
MU Op. Surplus/Deficit %	3.1	2.9	-0.1	2.2	0.7	-5.2	-4.6	-1.6	-4.1	-8.7	-13.5	0.5	0.9
MU NHS Contracts Sustainability Reviews												X	
1 Duration										TRI	TRI	TRI	TRI
2 Termination										S	TRI	TRI	TRI
3 Compliance - Information; Management & Review										S	S	S	S
4 Placement Responsibilities										S	TRI	TRI	TRI
5 Output Specification										S	S	S	S
6 Output Floors and Ceilings										S	TRI	TRI	TRI
7 Size of Short Run Variability of Output Quantities										S	S	S	S
8 Trends in GM Demand for Output Quantities										TRI	S	TRI	TRI
9 Basis of Price - Innovation										TRI	TRI	TRI	TRI
10 Basis of Price - FEC										TRI	TRI	TRI	TRI
11 Basis of Price - OBC Risk										S	S	S	S
12 Actual Price v Supplier's FEC										U	U	U	U
13 Performance (i)										S	S	S	S
14 Performance (ii)										TRI	TRI	TRI	TRI

6.3.1 Interpretation of IOR Stability Impacts 2005/06 – 2007/08

6.3.1.1 Exogenous Events and IOR Interim Contracts

In 2005 and coincident with the time that MU's 5 year NHS contract for its pre-registration provision was coming to an end (March 2005) and the commencement of the final year of its 3 year post-registration contract (April 2005), a new national level framework education contract, the 'National Standard Contract' (NSC), was in the process of being negotiated at NHS-HS inter-sector level. It was expected by all GMs and HEIs once these negotiations were finalised that individual GM-HEI contracts would be redrawn so as to align with the NSC. Consequently, pending the outcome of the NSC negotiations, the GM proposed to MU a new interim one year contract (for the period 2005/06), the terms and conditions of which were partly based on those in the IOR's previous contracts. This proposed new contract was agreed by MU. The intentions of the GM and MU were that once an NSC had been agreed then a new longer term contract for the IOR which was based on the NSC would be negotiated.

In the following year, 2006, there were two sets of exogenous events which further influenced the contract arrangements between the GM and MU and had consequences for IOR stability. The first of these was the negotiations on the National Contract: these were still continuing. The second consisted in a chain of events which commenced in 2001 and related to the functions and organizational structures of the GM: in 2001 the functions of the NLC were transferred to newly formed Workforce Development Confederations (WDCs). The membership of the WDCs was similar to that of the preceding employer consortia such as the NLC and the strong ethos of partnership which had been created between NHS healthcare workforce employers and the HEIs continued. However, in the context of the implementation of the NHS Plan 2000 and the consequent relatively large impacts on the NHS workforce which were planned, the WDCs were to take a top down approach to workforce planning and development.

In 2002, alongside the WDCs taking over the NLCs and coterminous with the boundaries of the WDCs, 28 Strategic Health Authorities (SHAs) were created; the SHAs replaced the NHS Executive and were responsible to the Department of Health (DH).³²² The scope of the SHAs was comprehensive, covering both the acute and primary sectors of NHS: all of the NHS Trusts and all of the Primary Care Trusts (PCTs) became responsible to the SHAs. In 2004 the WDCs were disbanded and their education commissioning functions taken over by the SHAs.³²³ The SHAs now had three roles: (i) 'strategic leadership' of healthcare provision and delivery in their areas. In this role the SHAs were required to maintain a 'strategic oversight' of both the NHS Trusts and the PCTs and to support healthcare provider development, *'particularly in shaping the structure of local supply; assessing capacity requirements; ensuring sufficient competition and contestability; supporting major service reconfiguration; and achieving financial recovery'*; (ii) operational oversight of the NHS Trusts and PCTs, particularly to ensure that local healthcare systems operated effectively and in line with Government policies;³²⁴ (iii) NHS workforce development. This role was about SHAs *'ensuring all*

³²² The 28 SHAs were created under the National Health Service Reform and Health Care Professions Act 2002. Details available at: <http://www.legislation.gov.uk/ukpga/2002/17/contents> Accessed February 2015. See also the Department of Health web archive at:

<http://www.webarchive.org.uk/wayback/archive/20130329111203/http://www.london.nhs.uk/webfiles/Corporate/Workforce%20Strategy/Development%20of%20an%20Education%20Commissioning%20System%20for%20NHS%20London.pdf> Accessed February 2015

³²³ Source: Audit Commission (2004) p. 4

³²⁴ Although the PCTs directly received the funding for the commissioning of primary healthcare services for their area (which across all PCTs accounted for the bulk of the overall budget for the NHS) and were responsible for the management of that funding, they did so under the 'strategic oversight' of the relevant SHA. The SHAs thereby had a role in ensuring that PCTs (as well as NHS Trusts) kept to their annual budgets.

*aspects of workforce supply – including education, training, and workforce planning – best support service demand’.*³²⁵

Thus, in 2004 the SHAs became the new GMs. For MU the new GM SHA was the North London Central Strategic Health Authority (NCLSHA). In July 2006 the 28 SHAs were restructured into 10 SHAs.³²⁶ The restructured SHAs included for the first time a pan-London SHA, NHS London (NHSL), which then became the relevant GM for the IOR with MU. Meanwhile, earlier in 2006, given the impending reorganization of the GMs and to allow the new London SHA some time to become fully operational, the outgoing GM (NCLSHA) for the IOR with MU proposed a further one year interim contract (for the period 2006/07), the terms and conditions of which were identical to the previous year’s interim contract. This new interim contract for the IOR was also agreed by MU.

IOR dimensions 1 – 4: A consequence of the interim contracts was the ‘threatened instability’ on IOR dimension 1 (*Duration*) continued from 2004/05 into 2005/06 and 2006/07.³²⁷ ‘Threatened instability’ was also the impact on IOR dimension 2 (*Termination*) – the GM and MU had equal rights of termination but under the interim contracts this could be done on written notice with no minimum period of notice required. Compared with previous contracts, there were no differences in the interim contracts for 2005/06 and 2006/07 regarding compliance information and management requirements, so on dimension 3 the IOR continued to be ‘stable’. However in regard to IOR dimension 4 (*Placement Responsibilities*), under the terms of these interim contracts MU was now solely responsible for the sourcing of placements. Given the lack of control MU had over the employers’ placements provision (particularly in regard to the quantities and types of placements provided – ‘placements capacity’ – but also to some extent over the quality of placements) this meant that the stability impact on IOR dimension 4 became a ‘threatened instability’.

IOR dimensions 5, 6 and 13: The outputs specification (IOR dimension 5) continued under the interim contracts to be on the basis of the requirements of the regulatory professional body; as in previous periods, it was MU’s effective adaptation to these requirements which brought about a continued stability impact on this IOR dimension and consequently also on IOR dimension 13 in regard to requirements for outputs quality.³²⁸ In regard to output floors and ceilings, IOR dimension 6: no provisions were made for these were made in the draft interim contracts prepared by the GM – since the interim contracts were agreed at the same time as the output quantities allocations were specified these omissions did not seem to MU management to be material at the time. However, the effect of the omission of such provisions did technically mean that the impact on IOR dimension 6 was a ‘threatened instability’.

³²⁵ Sources: Department of Health (2006a); ‘*Who we are*’ NHS London 2013, available at <http://www.webarchive.org.uk/wayback/archive/20130304122318/http://www.london.nhs.uk/who-we-are> Accessed May 2013.

³²⁶ The NHS Act 2006 empowered the Secretary of State for Health to vary the area for which a SHA was established and to abolish a SHA. Source: NHS Act 2006, Chapter 1, Clause 13. Available at: http://www.legislation.gov.uk/ukpga/2006/41/pdfs/ukpga_20060041_en.pdf The Secretary of State duly exercised this power in March 2006, ordering the reorganization of the SHAs to take place in July 2006.

³²⁷ For IOR stability on the *dimension* of ‘duration’, the duration of the contract had to be at least 2 years. However, by day 2 in each of the years 2003 and 2011 the remaining duration of the contract had become less than two years.

³²⁸ The effectiveness of MU’s responses in relation to outputs specification requirements were reflected in the stability impacts on IOR *dimension* 13 (*Performance i*) consisting in the continued satisfactory performance ratings in the regular monitoring reviews of the professional regulator (the NMC) and in the satisfactory ratings by the GM of MU’s performance which were implicit in the renewal of MU’s contracts.

6.3.1.2 Exogenous Events and GM Demand for Outputs

IOR dimensions 7, 8: By 2005/06, events exogenous to the IOR had occurred or were in the process of occurring, which were to have an impact on the stability of IOR dimensions 7 and 8. One of these events was the Health and Social Care Act 2003. According to Pollock et al (2003) one of the main objectives of the Act was to abolish government control of NHS Trusts by turning them into competing independent corporations.³²⁹ All NHS Acute Hospital Trusts were to become Foundation Trusts by 2010.³³⁰ Both NHS bodies and non NHS bodies, including private companies could apply to become Foundation Trusts. Foundation Trusts were intended to have greater operational independence and thereby it was hoped to be relatively more responsive to the healthcare needs and demands of their local areas. To be given Foundation Trust status, an NHS Acute Trust had to demonstrate its financial sustainability.

Implementation of the 2003 Act brought about the establishment of the first NHS Foundation Trusts established in 2004.³³¹ However, even though implementation of the NHS Plan 2000 had already resulted in substantially increased budgets for NHS Trusts as well as for the NHS overall,³³² many NHS Acute Trusts returned financial deficits for the financial year 2004/05 – for the NHS overall, a net financial deficit for the year was recorded.³³³ The overall net deficit for the NHS in England increased in the following year, 2005/06: a gross deficit of £1,277m and a net deficit of £512m were recorded; the number of provider organizations in deficit increased year on year from 159 to 174 organizations (the latter comprised 31% of all NHS provider organizations, excluding Foundation Trusts).³³⁴

Financial balance in the NHS was considered by the DH as essential to the success of the new ‘market style reforms’; consequently, successive years of deficits in a context where NHS budgets overall had been increasing were seen by the DH and the Treasury not merely as a fiscal problem but also as a strategic problem: potentially at stake was the success of government policy overall for the marketisation of the NHS – with a ‘real market’ in place it was believed by government policy makers that greater efficiency including better VFM and cost efficiency of NHS providers, would result.³³⁵

³²⁹ Pollock, A., Price, D., Talbot-Smith, A., Mohan, J. (2003) ‘*NHS and the Health and Social Care Bill: end of Bevan’s vision?*’, British Medical Journal 2003, 327:982

³³⁰ Later, this target date was extended to 2014. By 2014 there were 175 NHS foundation trusts; in addition to these, there were 99 acute hospital trusts still seeking foundation trust status; however it was estimated that under their current organizational arrangements perhaps c. 47 of those trusts might never be in a position to satisfy the requirements for financial sustainability to be given foundation trust status.

³³¹ Source: Rivett, G. (2013) ‘*NHS foundation trusts first established in 2004 ... are accountable to an independent regulator, Monitor, which is accountable directly to Parliament. ... NHS foundation trusts are freer from central government control, manage their own budgets and shape the health care services they provide to reflect local needs and priorities.*’

³³² There had been a 5 year moving average annual growth of 7.6% p.a. in overall NHS expenditures in England between 1999 and 2004. Source: Harker, R (2012), pp 5-6.

³³³ Source: King’s Fund (2006), p. 1.

³³⁴ Source: King’s Fund (2006), pp 1-2. The financial figures also exclude Foundation Trusts.

³³⁵ Source: The King’s Fund (2006), p. 7. The internal market of the NHS that had been introduced in the 1990s had mainly consisted in implementation of a purchaser provider split; the latter had included the creation of PCTs and hospital trusts, and the process of ‘commissioning’ by PCTs from hospital trusts. All of this had become well established. However what had not yet been established was a market with competition and a diversity of suppliers both at organization (e.g. hospital) and role (e.g. hospital consultant) levels. According to Player (2013), Leys and Player (2011), and Pollock (2004) the new ‘market style reforms’ (PbR; the new contracts for hospital consultants and other NHS staff; the establishing of Foundation Trusts; and the introduction of ‘patient choice’ of healthcare provider) the implementation of which had begun in 2003 (following the 2003 Act), were intended in their totality to promote competition and choice in the NHS.

Responses by government to the 2005/06 NHS deficits were to insist that NHS Trusts current budgets were not exceeded and included a range of substantive measures to tackle the perceived underlying problems as well as 'financial adjustment' measures to balance the books.³³⁶ Substantive measures included 'turnaround programmes': on the perception that 'poor management' was an important cause of the deficits, 'turnaround programmes' were initiated in December 2005 by the DH in 101 of the deficit making NHS organizations.³³⁷ In addition, Trusts generally sought to cut their costs, mainly by not recruiting to outstanding vacancies and by closing wards.

An example of 'financial adjustments' was a response by the London region SHAs to top slice 1% of the budgets of surplus making PCTs to offset deficits elsewhere.³³⁸ However 'financial adjustments' were not limited to healthcare service budgets but were also made to the NHS MPET budget/levy and the allocations of the latter which individual SHAs made in their regions. Although the NHS overall was in deficit in 2005/06, the position was different not only between individual NHS organizations but also between different types of NHS organizations: while Trusts and PCTs were overall in deficit, SHAs were in surplus.³³⁹ SHAs' surpluses totalled c. £500m and related mainly to their MPET allocations. From the time it was first created in 2001, the MPET budget had been ring-fenced; however, in 2005 as one of their responses to the NHS financial crisis, SHAs throughout England decided to lift the MPET ring fencing and to use some of the MPET funding to plug or mitigate the deficits of NHS service providers. About £150m of the MPET funds transferred to the service budgets in 2005/06 came from the part of the MPET budget used to fund education for the allied health professions, the Nursing, Midwifery Education and Training (NMET) budget – the IOR GM (NCLSHA) itself transferred c. £6.3m out of its MPET budget allocation to its service budget.³⁴⁰

As part of the latter move, in 2006/07 the GM reduced its demand for output quantities across all IOR contracts it had in the M_6 , including its IOR with MU: new commissions for 2006/07 were reduced by c. 10% on 2005/06 levels. The way in which the reduction in commissions was made by the GM avoided any short run problems of stability on IOR dimension 7 (Size of Variability of Output Quantities): firstly, the GM gave MU several months' warning of the potential for a reduction; when finally made, the reduction was kept to within the maximum reduction permitted under the previous

³³⁶ Based on Public Interest Reports (PIR) issued by the Audit Commission and on reports from Trusts, The King's Fund (2006) summarised the causes of the 2004/06 deficits under three main groupings:

(i) Local management: in this group were 'poor management' and higher than planned costs of private finance contracts (PFIs).

(ii) National policies and decisions: in this group were the higher costs of new contracts for NHS staff (e.g. hospital consultants) introduced in 2003/04, the adverse funding impacts on those Trusts with higher than national average costs of the introduction in 2003 of payment by results (PbR) for hospital procedures and treatments, and the cost of implementing NICE guidance – the last reflecting increasing costs of medical treatments and expectations about the quality of healthcare).

(iii) Local health economies: in this group were duplications of services in particular areas (implying a need for the reconfiguration of services) and contagion effects. The latter could occur for example, where some hospitals were dependent for a large proportion of their income on another NHS organization (such as a Primary Care Trust) which was in financial trouble. On the other hand, PCTs generally were thought to be unable effectively to control the demand for hospital services: referrals were made by GPs who were not under the control of PCTs and hospitals would never send away sick patients. Source: The King's Fund (2006), pp 4-6.

³³⁷ Source: The King's Fund (2006), p. 4. The 'turnaround' initiative included 'turnaround teams' commissioned from external auditors (KPMG) which were sent into the relevant NHS organizations.

³³⁸ The King's Fund (2006), p. 7

³³⁹ The King's Fund (2006), p. 3

³⁴⁰ Source: CoDH (2006), 'Draft Evidence to the House of Commons Select Committee Inquiry into NHS Deficits' - Archive 67 paragraphs 2 to 6.

pre-registration contract of the IOR in which output floors and ceilings had been specified; secondly the GM consulted, and eventually also agreed, with MU about precisely in which education programmes the reductions would be made so there was the least adverse impact on MU.

The reduction in the GM's demand for outputs in 2006 continued a decline in the rolling 3 yearly output demand of the GM which had first begun in 2003/04. The impact on IOR dimension 8 was a 'threatened instability'. The GM's demand for outputs was never subsequently restored to its pre-2006 levels – the GM's new commissions demand in 2007/08 was nearly the same as it was in 2006/07 – so that the trend of decline continued into 2007/08

Over the period 2004-2006 and coincident with when they were in financial deficit MU's main NHS Trust placement providers made reductions in their placement capacity for pre-registration students. The placement capacity associated with the hospital wards that were closed was lost and not replaced. These reductions substantially exceeded the actual cuts to commissions for students which had been made by the GM so that there was a threat MU's performance in the IOR would, from the GM's perspective, become deficient (thus threatening the stability on IOR dimension 13). Given that under the interim contracts the GM no longer had a responsibility that sufficient placement capacity was found, the problem became MU's problem.³⁴¹ In response, MU devised and implemented arrangements with those Trusts which were its main providers of placements, which functioned to increase the productivity of the Trusts' remaining placement capacity.³⁴² As a result, sufficient placement capacity was found by MU during the period.

6.3.1.3 Exogenous Events and Price

IOR dimensions 10-12: Events exogenous to the IOR both prior to 2005 as well as during the period 2005-2007 also had an impact on the stability of the IOR in its price component. As part of the implementation of the NHS Plan 2000, substantial extra investment in education for the future NHS workforce had been allocated.³⁴³ However, government policy makers realised it was another matter whether HEIs would actually deliver on the volume increases in education that would be demanded of them. Against this background and the government priority rapidly to increase NHS workforce capacity, the Comptroller and Auditor General (AG) of the National Audit Office (NAO) in 2001 reviewed *'the effectiveness of the arrangements for educating and training the future NHS health professional workforce'* in order to identify issues that needed to be addressed if the policy objectives for the NHS as set out in the NHS Plan were to be achieved.³⁴⁴

On price and costs the AG found there were *'wide variations in price per student for the same qualification'* and *'the contribution to overheads in NHS funded contracts is much less than for non-*

³⁴¹ In effect, at the same time that placement capacity had become a problem the GM had, via the new interim contracts, transferred to MU the responsibility for addressing the problem.

³⁴² The 'productivity' of placement capacity was increased mainly through either allocating more students per ward and per mentor, and/or by increasing the flexibility of placement capacity by dividing the total time of placements required into placement units of shorter duration – while the latter increased the number of placement 'units' the increased scheduling flexibility which this brought about functioned to increase usage (and thereby productivity) of the available placement capacity.

³⁴³ See supra this Chapter for discussion of increases to the NMET budget and MPET levy over the period 1997/98-2004/05.

³⁴⁴ Audit Commission (2001), 'Educating and training the future health professional workforce for England', Report by the Comptroller and Auditor General; HC2771 Session 2000-01; 1 March 2001, p. 2. The NHS Plan 2000 had been formalised under the Health and Social Care Act 2001.

NHS funded contracts'.³⁴⁵ The AG concluded that the then existing (2001) position on price and costs for pre-registration education provision could hinder the sought for expansion of the healthcare workforce.³⁴⁶ The AG also concluded that the wide variation on pricing also meant there was a lack of transparency throughout the system such that value for money of money spent on NHS workforce education and training could not be assured. The AG recommended that the Department of Health (DH) *'agree a standard benchmark pricing formula for NHS funded programmes similar to that operating for HEFCE funded programmes'*.³⁴⁷ This recommendation was accepted and in 2002 JM Consulting Limited (JMC) was appointed by the DH to investigate, and make recommendations about the establishing of a national tariff or benchmark price arrangement for the pre-registration level education provision for NHS non-medical staff.

JMC (2003) concluded that the establishing of a national tariff based on a standard pricing system was desirable (for the reasons stated earlier by the AG) and would also be an appropriate.³⁴⁸ The appropriateness of a standard cost approach was because (i) there was little variation in direct costs on a unit cost basis: a large proportion of those costs were staff costs the level of which were negotiated nationally and were broadly well aligned between education providers (ii) the design of the curricula and its delivery was closely prescribed and controlled by the regulatory body (the NMC) – there was relatively little latitude for individual education providers to vary in their production technology. 'Strongly recommended SSRs' norms were monitored through annual monitoring reviews by the regulatory body and while HEIs deviated from those norms they did so within informally accepted limits but at their own risk (iii) in regard to overheads: although individual providers varied in what each classified as 'central' and 'local costs', when these costs were assessed on a standard basis JM Consulting found that *'the derived standard costs were not very sensitive to changes in this area'*.³⁴⁹ JMC recommended:

- Benchmark prices should be determined on an average standard costing basis.
- The levels at which benchmark prices were set should be based on the principle that price reflected the agreed average standard costs to HEIs of delivering the education provision to the required specification/quality standards – the latter being determined mainly by the professional bodies. HEIs' full economic costs (FEC) were to be covered, including costs of capital.
- It was assumed in the JMC recommendations that HEIs would be paid for the fte students that were on their programmes where fte was calculated on the basis of student attendance.³⁵⁰

³⁴⁵ Audit Commission (2001), *ibid* (i) pp 30-32 (ii) p. 32, paragraph 3.8

³⁴⁶ Underlying this conclusion was the belief that HEIs might not respond co-operatively or as readily to the national priority to increase the numbers on their health programmes if the extra resources needed by those HEIs to invest in an expanded infrastructure (which they had told the AG they needed for the increased numbers) were not made available. The lower contribution rates of NHS contracts were also probably seen as a potential issue, either for the quality of the education provision and/or if ultimately NHS workforce education was being cross-subsidised from Universities' HEFCE contracts and overseas activities.

³⁴⁷ Audit Commission (2001), *ibid* p. 7

³⁴⁸ Source: BMP JM Consulting Report 2003 – Archive 28.

³⁴⁹ Source: BMP JM Consulting Report 2003, p. 3.

³⁵⁰ Under this arrangement the risk to the GMs was lower VFM from relatively higher student attrition; from the HEIs' standpoint the risk was that part of the prior resource commitment they made on the assumption of a lower attrition rate would not be compensated (e.g. in the event of higher attrition and the consequent partial non-deployment of their committed resources). As an alternative arrangement JMC suggested that prices, instead of being paid on the basis of student fte attendance, could be paid for student fte completing their programmes. In the latter scenario, JMC suggested some uplift to the BMP could be made so that HEIs were compensated for the extra risks HEIs would bear under such an arrangement.

- Having regard to the ‘affordability’ (from the GM’s standpoint) of the introduction of the benchmark pricing system (that is the costs of their proposals relative to the current NMET levy allocations within the overall MPET levy) JMC recommended that SSRs were assumed for each relevant occupational group at levels equal to the then average of HEI planned SSRs (i.e. equivalent to budgeted establishment) rather than at the levels then being recommended by the professional bodies.³⁵¹
- Benchmark prices should be reviewed every 5 years. In the interim, benchmark prices were to be adjusted annually for inflation using the GDP deflator for the NHS.

IOR dimensions 9 – 12: Following consultations between the DH, UUK and the Council of Deans of Health (CoDH),³⁵² a BMP arrangement was agreed and ‘**guidance**’ issued by the DH to GMs that a new standard pricing structure based on this approach be implemented with effect for cohorts commencing from April 2006, or from September 2005 if agreed locally between a SHA and the education providers.³⁵³ By July 2006 the new BMP had either already been implemented by most of the SHAs in England (including 2 of the 5 outgoing London SHAs) or was about to be implemented for 2006/07. However, mainly on grounds of affordability from its standpoint, the GM, NCLSHA, refused to implement the BMP in September 2005 and refused again in April 2006, leaving it to the new incoming SHA/GM, NHSL, eventually to review the position for potential implementation in 2007/08.³⁵⁴ Consequently, from MU’s standpoint the unit prices for its pre-registration education provision which on an inflation adjusted basis were based mainly on the original 1995/96 contract price continued to apply in 2005/06 and in 2006/07; as a result the stability impacts on IOR dimensions 9 – 12 in those years were unchanged from 2004/05.

6.3.1.4 2007/08: Key Endogenous Events: Important GM Decisions about Contract and Price

IOR dimensions 1, 2, 4 – 6, 9 and 11: By the end of 2006 a National Standard Contract Framework (NSC) had been agreed between the DH and UUK and subsequently had been adopted as the framework contract by the other SHAs in the country. However, the new GM for London, NHSL, indicated it was not satisfied with parts of the NSC. For that reason and to allow further time for an alternative to the NSC to be developed, the GM proposed and MU agreed a *further* interim contract of one years’ duration for 2007/08. Except in two respects the 2007/08 interim contract was identical to the previous interim contracts and the consequent stability impacts on the relevant dimensions of the IOR – dimensions 1, 2, 4-6, 9 and 11 were also the same. The differences in the 2007/08 contract related mainly to dimensions in the contract and price components of the IOR:

(i) **IOR dimension 3:** The 2007/08 interim contract had new clauses which concerned a ‘contract performance management (CPM) system’ which mainly consisted in a more specific formulation of the information and reporting requirements set out in previous IOR contracts. These clauses also

³⁵¹ The difference between the two SSRs was material, e.g. for nursing the relevant professional body (the NMC) recommended in 2002 an SSR of 1:12, whereas JMC found that HEIs on average *planned* an SSR of 1:15.

³⁵² The CoDH was founded in 1997 and represented UK universities which had NHS contracts for non-medical education.

³⁵³ In January 2005, the CoDH recommended the outcome (then proposed) to its members, stating their belief that ‘*this is the best deal that DH officials are able to recommend to Ministers*’. Source: BMP Agreement Part 1 and additional note January 2006 – Archive 66. With regard to attrition it was agreed informally between the DH and UUK/CoDH that universities would seek to improve on attrition so that the national average, then at c. 18%, would eventually reduce to no more than 13%. However, no penalties were involved in the event this informally targeted reduction in student attrition was not achieved.

³⁵⁴ ‘Affordability’ meant a lack of GM budgeted resources. Thus the NHS ‘financial crisis’ of 2005/06 and the GM’s response to that ‘crisis’ in lifting the ring fence of its MPET budget was also consequential for the (two year) delay to implementation of the BMP and hence to the stability impact on IOR *dimension* 10.

indicated the introduction of new planning and management review requirements. However, precise details of these new requirements were not set out in the 2007/08 interim contract – full details would only become known as the CPM system itself was developed subsequently. For the time being (i.e. for 2007/08) the stability impact on IOR dimension 3 remained ‘stable’, albeit the potential had been opened up for relatively substantial ‘monitoring creep’ in the overall compliance burden to develop and eventually for a ‘threatened instability’ impact on this IOR dimension.³⁵⁵

(ii) **IOR dimensions 10, 12, and 14:** The GM decided that the BMP was to be implemented throughout its London area and where it had not already been implemented the BMP was to be phased in over three years commencing from September 2007.³⁵⁶ This meant the determination of price for new pre-registration commissions now changed from being determined locally by negotiation between the GM and its suppliers (including MU), to become a national level negotiation between the respective representative bodies of the GMs and of the universities. There were two consequences of this. The first effect was to change the conditions under which the IOR existed in respect of the dimensions of its price component from M_G to bilateral monopoly. The second effect was on the stability impacts on dimensions 10, 12 and 14. The establishing of unit price on an assumed FEC basis changed the stability impact on IOR dimension 10, from a ‘threatened instability’ to being ‘stable’. However, the latter would not come about until the phasing in of the BMP was completed in 2009/10 and relied on the assumption that meanwhile the FEC basis of unit price would continue.

In respect of IOR dimension 12 (actual price vs MU’s FEC), MU stood to gain substantially from BMP implementation – c. 12% uplift on the unit prices it was paid for pre-registration provision in the IOR. MU’s overall financial performance had also improved: as a result of the implementation of internal cost-cutting measures but also partly due to the introduction of the £3k fees in the HE sector in 2006, MU made a (small) operating surplus in 2006/07, its first since 1999/2000; MU consolidated this performance with a further operating surplus in 2007/08. However, until the BMP was fully implemented then on stability impact, IOR dimension 12 would continue to be ‘unstable’ and as a consequence IOR dimension 14 would continue in a state of ‘threatened instability’.

6.3.2 Explanation of IOR Stability Impacts 2005/06 – 2007/08

Variables which were relevant to explanations of stability impacts in earlier periods of the IOR continued to be relevant over the period 2005-2007. These variables included exogenous change, the objectives and priorities of the GM and MU in the IOR, power dependence responses of the GM and MU, and historical dependencies in the IOR.

6.3.2.1 Exogenous Change and IOR Objectives

Until 2004, when the WDCs were merged with the SHAs, the main focus of the GM (in the context of the IOR) had been on its role on matters associated with NHS workforce development. From 2004 the GM at overall SHA level had three roles (health service ‘strategic leadership’, health service operating performance, and workforce development) and objectives associated with each of those roles. On workforce development, the overall objective of the GM was to ensure an appropriately skilled healthcare workforce was in the right place at the right time. At IOR level the GM had three

³⁵⁵ See also supra Chapter 5. The *potential* under the CPM system for substantial additional MU management resources to be required was not appreciated by MU management until more details of the CPM requirements were provided in the LEC contract of 2008 and the implementation of the CPM got under way in 2009. After 2009 the CPM itself underwent a continuous development from 2007 to 2012 when it became the ‘QCPM’.

³⁵⁶ Source: Pre-registration Agreement/Contract 2007/08, clause 5 ‘Unit Price’ – Archive 36.

objectives: (i) to ensure that the investments made in healthcare staff and services ‘*delivered the best possible care and support for the public and patients*’³⁵⁷ while also (ii) ensuring ‘value for money’ (VFM) was obtained from expenditures on education and training, and (iii) ensuring that these expenditures did not exceed the agreed annual budgets.³⁵⁸

Over the period 2005-2007, MU’s IOR objectives continued to include IOR performance objectives particularly in terms of the level student numbers, compliance with the contract requirements, and the assessed quality of ‘outputs’ i.e. graduates and the performance of students in placement.³⁵⁹ These objectives had the same potential compatibility with the GM’s objectives on contracts and outputs components related dimensions of the IOR, and the same potential conflict on price component related dimensions of the IOR that had existed over the previous period, 1996-2004. However, events exogenous to the IOR – specifically the negotiations on the NSC, the restructuring of the GMs, the NHS financial ‘crisis’ of 2006 and the overall financial performance of MU – and the responses of the GM and MU to those events, changed the potential for compatibility and conflict in the IOR. They also shaped the power dependence responses of the GM and MU in the IOR and affected the historical dependencies on many of the IOR dimensions.

6.3.2.2 Power Dependence Responses and Historical Dependencies

Power dependence responses of the GM and MU and historical dependencies relevant to explanations of IOR stability impacts for the period 2005/06-2007/08 are summarised in Table 14(ii).³⁶⁰

Caption to Table 14(ii)

- Shown in Table 14(ii) are the types of historical dependence (HD) processes associated with stability impacts by IOR dimension for the period 2005/06-2007/08.

Example: Dimension 1

<u>Years</u>	<u>Stability Impact</u>	<u>HD Process</u>
2005/06-2007/08	TRI	Forgetting (FG)

- Shown for each dimension is the incidence of the types of HD processes for each year of the period.
- Shown is the occurrence of particular types of power dependence responses by the GM and MU respectively for each year of the reference period.
- Types of power dependence responses by MU and the GM increased compared with the previous period, e.g. from 3 different types in 2004/05 to 6 different types in 2005/06.

³⁵⁷ Source: PCT and SHA Functions and Roles (2006)

³⁵⁸ Source: The VFM objective was inferred from IOR contract documentation, including the terms, conditions and the compliance requirements specified in the IOR contracts during the period, e.g. the pre-registration contracts for 2005/06, 2006/07, and 2007/08 (Archives 34, 35, and 36). The budgetary objective was taken from SHA Board papers and published accounts for the periods.

³⁵⁹ Source: ‘MU NHS Contracts Financial Sustainability Assessment 2006’ – Archive 19

³⁶⁰ Over the course of the reference period ‘Founder’ historical dependencies changed on IOR *dimensions* 1-3, 5, and 10 – old ‘Founder’ dependencies gave way to new ones. To distinguish the different ‘Founder’ dependencies and when they changed these dependencies have been numbered. For example, in Table 14(ii) IOR *dimension* 10, the first ‘Founder’ dependency (which applied from 1995/96 to 2006/07) is denoted by ‘F1’; the second ‘Founder’ dependency (which applied in 2007/08) is denoted by ‘F2’.

TABLE 14(ii): IOR Stability, Historical Dependence Processes and Power Dependence Responses 1995/96 - 2007/08														
Historical Dependence Key: IC = Initial Conditions; F/F1/F2 = Founder; FG = Forgetting; BU = Burden of History														
IOR Stability Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable														
IOR Key Outcomes: COMPONENTS & Dimensions	Stability Impact over Time													
	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	
CONTRACTS														
1 Duration										F	FG	FG	FG	
2 Termination										F	FG	FG	FG	
3 Compliance - Information; Management & Review										IC	IC	IC	IC	
4 Placement Responsibilities										IC	FG	FG	FG	
OUTPUTS														
5 Output Specification										F	F	F	F	
6 Output Floors and Ceilings										IC	FG	FG	FG	
7 Size of Short Run Variability of Output Quantities										FG	FG	FG	FG	
8 Trends in GM Demand for Output Quantities										FG	FG	FG	FG	
PRICE														
9 Basis of Price - Innovation										IC	IC	IC	IC	
10 Basis of Price - FEC										F1	F1	F1	F2	
11 Basis of Price - OBC Risk										IC	IC	IC	IC	
12 Actual Price v Supplier's FEC										F1	F1	F1	F2	
PERFORMANCE														
13 Performance (i)										F1/FG	F1/FG	F1/FG	F2/FG	
14 Performance (ii)										F1/FG	F1/FG	F1/FG	F2/FG	
Initial Conditions & Historical Dependence Processes														
Initial Conditions										5	3	3	3	
Founder										7	5	5	5	
Forgetting										4	8	8	8	
Power Dependence Responses														
MU Cost Reduction/Productivity Improvement												x	x	
MU Internal Cross-subsidy										x	x	x	x	
MU Acceptance of Increased Risk											x	x	x	
MU Lobbying											x	x	x	
GM Output Demand Changes										x		x		
GM Rent Extraction										x	x	x	x	
GM Exercise of Discretion or Veto											x	x	x	
GM IOR Rules Change											x		x	
GM Transfer of Risk											x	x	x	

IOR dimensions 1, 2: As noted earlier, the one year interim contracts for 2005/06 and 2006/07 were initiated by the GM in response to exogenous events – in 2005/06 to the prospect of an NSC which was still being negotiated at national level, and in 2006/07 to a reorganization of the GMs. Compared with the IOR contracts before 2005 the interim contracts were a change in the rules of the IOR; the increase in flexibility to the GM and MU which the new rules provided was associated with an increase in risk in the IOR from MU's standpoint on these dimensions – contract duration was only one year and termination could be made 'on notice' by either party at any time; the duration of previous contracts had been ≥ 3 years and no termination effected except for material un-remedied breach.³⁶¹ Whereas the GM had other supplier options to satisfy its outputs demand, MU did not have other buyer options to meet its resource commitments in supply. MU's response

³⁶¹ For the nature of the risk see the 'underlying assumptions' for IOR dimensions 1 and 2 defined in Table 2.

was to accept what was in effect an increase in risk in the IOR, partly because MU perceived the probability of the occurrence of negative outcomes associated with the risk was low – both MU and the GM expected at the outset of each year in the period that a new longer term contract would be in place by the following year.³⁶² The 2007/08 interim contract was different in that it arose not from an event exogenous to the IOR but rather from a decision taken by the GM not to accept the NSC but instead to develop a new contract for the London M_G. However, once again it was expected by MU and the GM that a longer term contract would be in place by the following year. From MU's standpoint the probability of negative occurrences associated with the risk continued to be low.³⁶³

A consequence of the successive interim contracts was to bring about a 3 year period of drift in the IOR. Associated with this was change in the historical dependencies on IOR dimensions 1 and 2 these changed from a 'founder' to a 'forgetting' type of historical dependence, reflecting in effect the short duration of the IOR contracts brought about by the changes in the (contract) rules of the IOR and consequently the end of the lock-in dependencies which had driven the impacts on these dimensions of the IOR in the previous period, 1995-2004.

IOR dimensions 4, 6: The changes under the interim contracts on these IOR dimensions also were a change in the rules of the IOR and an increase of risk in the IOR that MU accepted. The impact on historical dependencies on these dimensions was the same as outlined above for IOR dimensions 1 and 2, viz. a change from a 'founder' to a 'forgetting' type of historical dependence.

IOR dimensions 7, 8: prompted by the NHS financial crisis of 2005 and the financial deficits of the service (the PCTs and NHS Trusts) GMs throughout England prioritised their service objectives over their workforce development objective and redirected some of the resources at their disposal which had been allocated for NHS workforce education, to their service roles. This had the effect that the output demand of GMs in all M_Gs was reduced and consequently also reduced in all IORs nationally.

Responses to these reductions were made by HEIs and by representative organizations of HEIs both at overall HE sector level and IOR level. At HE sector level these responses were made through the CoDH. The CoDH both directly and through its member universities and also via the media, lobbied the DH, members of both Houses of Parliament and parliamentary committees (e.g. HoC Health Select Committee). The CoDH also lobbied the RCN and other healthcare professional bodies for support. The CoDH argued that a 'boom-bust' approach to healthcare workforce education had been developed by the DH and that this was destabilising the relationship between the NHS and HE sectors. According to the CoDH, the increase in demand for pre-registration education which had taken place from the late 1990s and continued in the early 2000s with the implementation of the NHS Plan (2000) had been a response to shortages of NHS staff in the 1990s. This had been the period of 'boom' in the demand for education. The cutbacks to education demand in 2005/06 were not because the need for newly registered professional staff had reduced but rather were due to short term financial pressures on the NHS. This was now a period of 'bust'.³⁶⁴

³⁶² The fact that the overall period of interim contracts eventually lasted for 3 years had neither been foreseen nor expected by either the GM or MU.

³⁶³ The GM did not at the time indicate specifically why it found the NSC to be unsatisfactory so there were no apparent reasons in that connection for MU to be concerned. In relation to contract compliance, MU's performance had always been rated as at least satisfactory by the GM so there no reasons either on those grounds for MU to believe that the GM would seek to exit from the IOR.

³⁶⁴ Sources: CoDH note on HoC Health Select Committee Report on Workforce Planning (2007) – Archive 59; CoDH (2006) Evidence to HoC Health Committee – Archive 67; CoDH Briefing to Members on 'Boom-Bust' – Archive 69, especially paragraphs 10-14.

The CoDH 'boom-bust' campaign lasted from 2005 to 2007. The main outcomes included a review of the NHS-HE sector relationship³⁶⁵ and the establishing of NHS-HE inter-sector committees (UKHEAC in 2007 and HENSE in 2008)³⁶⁶ which were designed to foster inter-sector dialogue and stability). In key respects however, the CoDH boom-bust campaign did not succeed: the output quantities reductions made by GMs in 2005/06 and 2006/07 were not subsequently wholly reinstated; MPET funding continued not to be ring-fenced and the SHAs continued to have the discretion to use MPET funding to support the service budgets when they considered that was necessary.

MU's response in the IOR was to adapt to the reduced demand through processes of productivity improvement and cost reduction. The stability impact on IOR dimension 7 was partly due to productivity improvements in placement resources which MU was able to achieve; MU was helped in this by collaborative planning with the GM and by the cooperation of the Trusts whose overall placement capacity had been reduced. However, MU's adaptation was made mainly through a process of internal cost reduction. In response to its own financial crisis in 2006, MU had conducted the first comprehensive review of the sustainability of its NHS contract.³⁶⁷ There were two main outcomes of that review: (i) MU initiated and completed a substantial cost cutting exercise in its IOR resources³⁶⁸ (ii) MU recognised the importance its NHS contract had in the financial sustainability of MU overall – for the year 2005/06, MU's NHS contracts activity was estimated to have contributed over £6m to MU's overheads.³⁶⁹ This compared with an estimated real terms equivalent contribution from MU's NHS contract of c. £1m p.a. over the period 1995/96 – 1997/98.³⁷⁰ Over the period 1995 - 2005 as a result of the growth of its NHS activities there had been relatively substantial increasing returns *at contribution level* to MU from its NHS contract. This growth had functioned to increase the resource dependence of MU in the IOR and, in a context of MU's overall financial position, also to increase the criticality of the IOR for MU's survival.³⁷¹

A consequence of this was to increase the perceived as well as the actual underlying power imbalance between the GM and MU: from MU's standpoint its top management concluded that even if its FEC position on its NHS activity was negative that the absolute size of the contribution to University overheads from its NHS contract meant there was no viable option for MU but to continue with the NHS activity as part of its portfolio and in the short run seek to mitigate its overall financial deficit position through cutting costs.³⁷² From the GM's standpoint and in the context of an M_G , the GM continued to have the option of choosing amongst different suppliers while MU did not have a similar type of option in respect of alternative buyers. The increasing power imbalance between the GM and MU was further reinforced by the impact of the interim contracts on IOR dimensions 1 and 2, by the transfer of burdens from the GM to MU on IOR dimension 4, and by the transfer of risks on IOR from the GM to MU on IOR dimension 6. For example, a one year interim

³⁶⁵ Snowden, A. (2008) – Archive 62.

³⁶⁶ Source: UKHEAC Annual Report 2012 – Archive 68, paragraphs 5, 10, and Archive A.

³⁶⁷ Sources: MU NHS Contracts Financial Sustainability Assessment 2006 – Archive 19; MU NHS Contracts Overall Review 2006 – Archive 23. The NHS Contract sustainability review was one of several other sustainability reviews of its activities which MU conducted at that time, these including a review of the sustainability of its contract with the Teacher Development Agency (TDA).

³⁶⁸ Source: MU NHS Contract Staffing Strategy 2007 – Archive 78.

³⁶⁹ Source: MU NHS Contracts Financial Sustainability Assessment 2006 – Archive 19.

³⁷⁰ Sources: (i) MU NHS Contracts and Estimated Costs 1995/96-1996/97 – Archive 42 (ii) MU NHS Contract and Estimated Costs 1997/98 – Archive 43.

³⁷¹ In 2005/06 MU had returned the biggest operating deficit in its history (13.5% of turnover). Source: MU Financial Accounts 1993-2013 – Archive 18

³⁷² For the NHS activity, MU worked out a plan to cut staffing costs by c. £1m p.a. Most of this saving was subsequently achieved by the deletion of current vacancies and freezing recruitment to all but essential posts. Source: MU NHS Contract Staffing Strategy 2007 – Archive 78.

contract functioned to curtail the security of supply MU had under its previous contracts and made it potentially easier for the GM to exercise options over its potential suppliers. Given the level of mutual dependence MU had in the IOR and the underlying power imbalance between it and the GM, there was on economic criteria no better option available to MU but on each occasion to accept the interim contracts when these were proposed by the GM.

IOR dimension 10: As noted earlier, on grounds of ‘affordability’ from its standpoint, the GM refused in 2005, and again in 2006, to implement the BMP in the M_G . The conditions of non-affordability in the M_G (from the GM’s standpoint) had been created by the GM itself when, in 2005, it transferred resources out of its MPET budget to the service budgets of the Trusts in its area. In refusing to implement the BMP in 2006 the GM was *exercising a discretion* that it had been given by the DH.³⁷³ MU’s senior management recognised the ‘unit of resource’ (i.e. the BMP or equivalent) in the IOR as a key issue – one of the outcomes of MU’s 2006 sustainability review of its NHS contract activity was further to raise the awareness of MU of its continued dependence on its NHS contracts and more particularly of the importance for financial sustainability of outcomes on the price dimensions of the IOR. MU tried to persuade the GM in 2005 and again in 2006 to implement the BMP, but without success. MU concluded that on its own it had no leverage in the matter and decided to lobby other HEIs in the M_G for a concerted response to the GM. However, the response from other HEIs (which also were in a similar position with expiring contracts) was that they felt they had to protect the security of their supply and accept the contracts they were offered i.e. without BMP implementation.³⁷⁴ Again, given the resource criticality of the IOR to MU and with no other viable options available, MU accepted the non-implementation of the BMP both in 2005 and in 2006.

Thus the power dependence response of the GM was to continue the extraction of rents from MU that had begun at the outset of the IOR in 1995; MU’s power dependence responses, after the lobbying at inter-sector level, were to continue the cross-subsidising of its NHS activity while also, from 2006, embarking on a programme of cost reduction.³⁷⁵ Consequently for 2005/06 and 2006/07 the historical dependence in regard to IOR dimension 10 continued to be the same as it had been in the previous period. In 2007 the GM exercised its discretion and implemented the BMP throughout the M_G .³⁷⁶ The effect of this was to establish a new historical dependence (F2) in relation to IOR dimension 10.

IOR dimensions 11, 12, 14: On IOR dimension 11 over the period 2005/06-2007/08 the distribution of OBC risk between the GM and MU remained the same, there was no change to the arrangements which had been established from the initial conditions of the IOR; the introduction of the BMP in 2007 did not change this situation – payment to MU of its IOR outputs continued under BMP arrangements to be on the basis of completed student months. On IOR dimension 12, actual price continued to be below MU’s FEC. MU continued to cross-subsidise its IOR over the period 2005-2007. It would take some years for the effects of MU’s cost reduction programme started in 2006/07

³⁷³ As noted earlier the DH had issued ‘guidance’ to the GMs about the timing of BMP implementation. In doing this the timing of BMP implementation became from the DH standpoint ‘a local matter’, i.e. a matter for GMs individually to determine.

³⁷⁴ Source: BMP and Contracts Feedback from London HEIs August 2006 – Archive 147.

³⁷⁵ MU’s programme of cost reduction in the IOR was part of a University-wide cost reduction programme; the latter had been prompted by the overall financial performance and position at that time – it had not been initiated due to MU’s financial performance in the IOR.

³⁷⁶ It is probable the GM took this decision because it had concluded that to continue with the BMP for some HEIs in the M_G and not for others (which had been the case one the 5 London M_G s had been merged into one pan-London M_G in 2006) would not be something which it would have been able to defend in the event of a concerted HEI challenge to that in 2007.

and the phasing in of the BMP which commenced in 2007/08 to turn around MU's negative FEC position in the IOR. Consequently the threatened instability on IOR dimension 14 in regard to the financial performance of the IOR from MU's standpoint, continued.

IOR dimensions 3, 5, 13: Stability impacts on these IOR dimensions continued over the period 2005-2007 to be the same as they had been since the start of the IOR in 1995 and were explainable by the same factors which applied in the previous period 1995-2004, viz. the continued effectiveness of MU's adaptation and 'power to' responses in the IOR. In respect of IOR dimension 5, over the period 2005-2007 MU continued in close collaboration with its NHS placement providers to consolidate and adapt its education provision to the NMC standards (particularly those issued in 2004). On IOR dimension 3, there were no immediate changes to IOR compliance information and review requirements during the period – albeit in 2007 the potential for substantial changes to these requirements had been introduced by the GM. For the time being however, the requirements determined by the initial conditions of the IOR continued to apply and MU's 'power to' responses to those requirements continued to ensure a stable impact on this IOR dimension. In regard to IOR dimension 13, the stability impacts during the period 2005-2007 were partly due to MU's performance on outputs quality and quantities (IOR dimension 5), and to MU's continued fulfilment of IOR compliance information and review requirements (IOR dimension 3). In addition (compared with the previous period 1995-2004), MU's success in collaboration with its main providers of placements in increasing the productivity of placement capacity was a further factor which also explained the stability impact on IOR dimension 13.³⁷⁷

6.3.2.3 Relationship between historical dependence, resource dependence and events 2005-2007

IOR dimensions 1, 2, 4, and 6: Several changes in historical dependence processes occurred in the period 2005-2007. Some of these changes (IOR dimensions 1, 2, 4, 6) were associated with the change to one year interim contracts. The lock-ins on these dimensions which had been in place in contracts during the period 1995-2004 either applied now only for a maximum duration of up to 1 year or, in IOR dimension 6, ceased to exist. All of these changes were initiated by the GM as responses to exogenous events and were accepted by MU because of its position of resource dependence in the IOR and their expectations of developments in the IOR once the period of each interim contract had come to an end.

IOR dimension 10: the change in 2007 in historical dependence on IOR dimension 10 was an outcome of a response by the GM to exogenous events; it was the resistance of the GM to change on this dimension at an earlier time (in 2005) which was important – the GM exercised a discretion it had to maintain the status quo regarding the basis of price, a status quo which since 1995/96 had resulted from the combined effect of a historical dependence process and a power imbalance between the GM and MU.

IOR dimensions 7, 8: stability impacts on these dimensions continued to be due mostly to the GM's responses to recent exogenous events. As in the previous period, 1995-2004, these events consisted of the annual NHS workforce planning processes and the future NHS workforce needs determined in

³⁷⁷ A further factor was MU's success in recruiting the numbers of acceptable students required to satisfy the GM's outputs quantities demand/commissions numbers targets. Throughout the whole reference period, 1995-2013, MU compliance with these demands generally averaged c. 95% or above, which from the standpoint of the GM was satisfactory or good. There were some years in which the compliance on particular occupation specialisms (e.g. mental health nursing) or on particular intakes (particularly the mid academic year March intake) was markedly lower.

those processes. However in 2006 an additional exogenous event, the NHS financial crisis through the GM's response to it, became a further relevant recent exogenous event to the IOR stability impacts on these dimensions.

IOR dimensions 3, 5 and 9: historical dependence processes continued to be important for stability impacts on these dimensions. The lock-ins from previous contracts continued; neither the GM nor MU sought changes to the IOR on these dimensions.

6.4 2008/09-2012/13: A Critical Juncture, Exogenous Shock, Decline; Power Games

During this period, events exogenous to the IOR but which were also endogenous to the M_G , made perhaps their greatest impact over the whole of the reference period on the stability of the IOR. Some of these events were initiated by the GM which, for the first time since the creation of and handover of the M_G to the NLC in 1998, took a pro-active role in strategically managing the M_G . Other exogenous events were also important, in particular a macro exogenous shock to government finances which ultimately had a significant and lasting impact on NHS funding from 2009/10. All of these events, along with the IOR stability impact assessments for the period 2008/09 - 2012/13 are summarised below in Table 13.

Caption to Table 13

- Summaries of events and when these occurred which were relevant to IOR stability impacts for the period 2008-2013.
- All events are grouped into the components of the IOR (contracts, outputs, price and performance) where these were most relevant. However it should be noted that some events had relevance on more than one dimension and which went across different components of the IOR e.g. 'GM devises and implements a new strategic framework – 2007-2013.
- Some events were part of a continuous process (e.g. the consolidation of nursing as a profession); other events were discrete, one-off events but which may indirectly have had an eventual stability impact on dimensions of the IOR (e.g. the Global Financial Crisis of 2008).
- Some events, also described as 'key events' (and highlighted in yellow in the Table, had a direct impact on the stability of the IOR e.g. 'BMP Review and Negotiations' which impacted on some IOR price and performance dimensions.

TABLE 13: IOR Events 2008-2013																			
	Events	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
	Nursing Prof. Consolidation						X	X	X	X	X	X	X	X	X	X	X	X	X
	DH & NMC Reviews of Nursing												X	X	X				
	NMC Standards for Nursing Pre-reg Education																X		
	GM Restructurings		X		X			X	X		X		X						X
	CoDH established		X																
	LDHG established												X						
	MPET Levy						X	X	X	X	X	X	X	X	X	X	X	X	X
	Health & Social Care Act 2003									X									
	PBR Hospitals Funding									X	X	X	X	X	X	X	X	X	X
	New Contracts: Consultants; GPs									X	X								
	First Foundation Trusts created									X									
	NHS 'Reconfigurations'									X	X	X	X	X	X	X	X	X	X
	National Standard Education Contract												X				X		
	FESC; WCC; 'Education Commissioning Regime'												X	X	X	X	X	X	X
	GM devises & implements new '(VFM)max Strategic Framework'													X	X	X	X	X	X
	Development of CPM and QCPM													X	X	X	X	X	X
	LEC 1														X	X	X	X	X
	BMP review & negotiations													X	X	X			
	HEFCE NHS-HE Review														X				
	UKHEAC & HENSE established													X	X				
	Global Financial Crisis													X	X				
	'Nicholson challenge': QIPP															X	X	X	X
	NHS Workforce Plans & Education Plans linked															X	X	X	X
	IOR supplier capacity plans															X	X	X	X
	FSWT, OBC and ITT initiatives																X	X	X
	OBC & ITT IOR negotiations																X	X	
	ITT & LEC 2																	X	X
	HE Tuition Fees: £1k/£3k/£9k				X								X						X
	MU Op. Surplus/Deficit %	3.1	2.9	-0.1	2.2	0.7	-5.2	-4.6	-1.6	-4.1	-8.7	-13.5	0.5	0.9	1.2	1.7	3.1	4.4	7.1
	MU NHS Contracts Sustainability Reviews												X			X			X
1	Duration													TRI	S	S	S	TRI	TRI
2	Termination													TRI	TRI	TRI	TRI	TRI	TRI
3	Compliance - Information; Management & Review													S	TRI	TRI	TRI	TRI	TRI
4	Placement Responsibilities													TRI	TRI	TRI	TRI	TRI	TRI
5	Output Specification													S	S	S	S	S	S
6	Output Floors and Ceilings													TRI	TRI	TRI	TRI	TRI	TRI
7	Size of Short Run Variability of Output Quantities													S	S	TRI	S	S	S
8	Trends in GM Demand for Output Quantities													TRI	TRI	TRI	TRI	TRI	TRI
9	Basis of Price - Innovation													TRI	TRI	S	S	S	S
10	Basis of Price - FEC													TRI	TRI	TRI	TRI	TRI	TRI
11	Basis of Price - OBC Risk													S	S	S	S	S	S
12	Actual Price v Supplier's FEC													U	U	?	?	S	S
13	Performance (i)													S	S	S	S	S	S
14	Performance (ii)													TRI	TRI	TRI	TRI	TRI	TRI

6.4.1 IOR Stability Impacts 2008/09 – 2012/13

6.4.1.1 Overview of Exogenous Events

One of the most important of the exogenous events occurred just before the start of the period: the restructuring in 2006 of the 5 London SHAs had brought together 5 different organizations with different practices in education commissioning. Following a restructuring of the GMs in England, a review of the M_G was commissioned by the new GM and carried out by the consultants, McKinsey and Company; the review was strategic in scope and took a future time horizon of 10 years, to 2016/17. The key conclusions of the review, which were endorsed by the GM, were that the overall system for education commissioning in the M_G was ‘not fit for purpose’, that the quality of the suppliers was too ‘variable’ (and in some cases fell below the minimum acceptable standards), and that contract arrangements between the GM and its suppliers were ‘too complex’.³⁷⁸ The ‘quality’ assessment was based on feedback received from some of the NHS employer placement providers; the ‘complexity’ of the contracts arrangements referred to the tripartite arrangements between the NHS placement providers, the education suppliers (including MU) and the GM in the shared responsibilities they had for pre-registration placements. The ‘fitness for purpose’ referred to both of these factors but also to the VFM implications of what were perceived to be relatively high levels of student attrition from the education programmes.

Following this review, the GM set itself two overall priorities: (i) to determine and develop a single optimal standardised education commissioning system ‘*that was fit for the needs of London*’ (ii) to ensure the effective management of its education budget; at c. £1bn p.a. the education commissioning budget for London was nearly three times larger than the average education budget for other individual SHAs in England and accounted for c. 23% of the overall MPET budget for England.³⁷⁹

In line with these priorities, in November 2007 the GM defined its overall aim in education commissioning in VFM terms as the maximisation of education outcomes per £ spent:

‘Commissioning = Max (Education outcomes for service need and desired service volume/£ spent)’.³⁸⁰

The GM pursued this aim through an ‘education commissioning regime’ (ECR).³⁸¹ As later became apparent, the initiating and establishing of the ECR functioned as a ‘critical juncture’ in the relations between the GM and its HEI suppliers in the M_G, including MU. The ECR was initiated by the GM in

³⁷⁸ Sources: NHS London (2007, 2008b); GM presentation to London HEIs ‘London Education Contract Feedback’, June 2008 – Archive 99.

³⁷⁹ Sources: (i) NHS London (2007), p. 1 (ii) MPET and NMET Budgets 1997/98-2012/13 – Archive 51.

³⁸⁰ Source: NHS London (2007), p. 5. Initially the ECR was referred to as an education commissioning system. However, by April 2008 the term ECR became more commonly used instead. For further details of the ECR see also NHS London (2008b), pp 39-47.

³⁸¹ Sources: NHS London (2007); GM presentation to London education suppliers (including MU) June 2008 – Archive 99. In their 2008 presentation the GM put the ECR in the context of its overall vision of education commissioning: ‘*To develop an Education Commissioning Regime to support a World-Class Healthcare Workforce for London ... Consequently we are developing a new commissioning process which will take a sustainable ‘value for money’ approach to meeting the workforce needs of the service, aligned with best practice from the system reform agenda and world class commissioning.*’ Source: NHS London (2008) presentation, slide 6 – Archive 99. The use of the term ‘world-class’ was a reference to the ‘World Class Commissioning’ (WCC) initiative which had been launched by the DH in December 2007. Source: <http://webarchive.nationalarchives.gov.uk/+www.dh.gov.uk/en/managingyourorganization/commissioning/worldclasscommissioning/index.htm> Accessed April 2015

2008 and structured into four projects. The first two of these projects were: (i) a contracting project; this project consisted in the development and implementation in 2008 of a new contract between the GM and the HEIs which would apply to all IORs in the M_G – the ‘London Education Contract’ (LEC)³⁸² (ii) a quality assurance project; this project was a sub-project of the contracting project and consisted in the development and implementation over the period 2008-2012 of a new quality assurance framework and which was founded on the CPM that had been introduced in 2007.³⁸³ The new quality assurance framework eventually became known as the ‘Quality and Contract Performance Framework’ (QCMP) and had become fully developed and formally implemented under the IOR contract as the QCMP by 2012/13.³⁸⁴

In November 2009, the GM initiated the third ECR project: this project was aimed at an integration of NHS workforce planning processes with NHS workforce education commissioning processes – according to the GM these processes had never previously been systematically related to each other – in effect, the short-term plans for education commissioning were not necessarily that closely related to the NHS workforce needs that had been identified in the NHS workforce plans.³⁸⁵ The project consisted in obtaining information about the capacity of each of the HEI suppliers in the M_G and the potential flexibility and responsiveness of each HEI from a capacity standpoint to potential changes in the GM’s demand for output quantities.³⁸⁶

In March 2011, the fourth and final project of the ECR was initiated by the GM.³⁸⁷ This project was about the management by the GM of the ‘supplier landscape’. The overall aim of the project was to sharpen the dynamic of competition between HEI suppliers in the M_G ‘*by incentivising innovation, rewarding excellence ... and having a clear procedure for intervention where improvement was required*’.³⁸⁸ This project mainly consisted in a formal tendering process (ITT) designed and implemented by the GM over the period 2011/12 which determined which HEI education providers of pre-registration level education would continue in the M_G and also determined with effect from 2012/13 the relative allocation of the GM’s demand for output quantities between those HEIs.³⁸⁹

Events exogenous to the M_G as well as to the IOR were also consequential for IOR stability impacts during the period 2008-2013. In this connection, perhaps the most consequential of these events during this period was the global financial crisis of 2007-2009 and the eventual impact that had on overall resources allocated by the UK government to the NHS. Given the eventual negative impact on the resources allocated to the NHS and the knock-on consequences that had for resources allocated via the MPET levy to NHS workforce education and to non-medical education in particular, the global financial crisis could fairly be described as an ‘exogenous shock’ to the M_G as well as to the IOR. The implications of the ‘exogenous shock’ for resources allocated to the NHS overall were given specific form by what became known from 2009 as the ‘Nicholson Challenge’.³⁹⁰ In response to that

³⁸² Source of details of the LEC - Archive 37

³⁸³ Sources: (i) NHS London (2008b), *ibid*, pp 44-45 (ii) details of the CPM are in the relevant sections of the IOR contracts for 2007/08 - Archive 36 - and in the 2008 LEC - Archive 37. See the discussion in Chapter 5 above on IOR *dimension 3*, ‘Contract Compliance – Information, Management and Review’.

³⁸⁴ Sources: Details of the introduction of the QCMP as part of a competitive tendering process initiated by the GM in 2011 were sourced in Archive 47; source of details of the QCMP as finally implemented - Archive 8.

³⁸⁵ Source: ‘Pre-registration commissioning update’, NHSL presentation to London Deans on 15th November 2010, Slide 18, first and second bullet points – Archive 79.

³⁸⁶ Source: ‘How is the Capacity Data used?’ NHSL Presentation to London HEIs April 2011 – Archive 80.

³⁸⁷ Source: GM presentation to LDHG ‘Education Planning and Market Update’, March 2011 – Archive 130.

³⁸⁸ Source: NHS London (2008) *ibid*, p. 45

³⁸⁹ Source: NHS London letter to London Deans 1st July 2011 ‘Shaping the Education Provider Landscape’ – Archive 81.

³⁹⁰ Source: Department of Health (2009) ‘The Year: NHS Chief Executive’s Annual Report 2008/09’, p.47.

challenge the GM initiated in 2010 a ‘financial strategy for workforce transformation’ (FSWT) project.³⁹¹ The scope of the FSWT project included potential changes in the GM’s demand for output quantities and potential changes in the definition of what outputs would be paid for. Ultimately the FSWT project also led to the ITT process and the management of the supplier landscape referred to above. Thus the exogenous shock of the global financial crisis ultimately engendered a number of endogenous events in the M_G as well as in the IOR.

Other exogenous events which had an impact on the stability of the IOR during the period were (i) a review of the BMP conducted in 2007/08 and the outcomes of the subsequent national level negotiations on the recommendations made in that review, which were concluded in 2009³⁹² (ii) the financial performance of MU overall, which continued an improvement in that performance which had commenced in 2006/07 and which from 2011/12 reflected relatively substantial operating surpluses being made by the University³⁹³ (iii) a review by the DH in 2006/07 of nursing roles and careers.³⁹⁴ The outcomes of the DH review for nursing pre-registration level education were taken up in 2007 by the NMC which launched a profession and employer wide consultation.³⁹⁵ The outcomes of that consultation ultimately led to the NMC Standards of 2010 for nursing pre-registration level education and a graduate level entry requirement for professional registration.³⁹⁶

6.4.1.2 Power Games and IOR Stability Impacts 2008-2013

Excepting the DH review and the consequent development of the NMC Standards of 2010, all of the events noted above were played out in the IOR over the period 2008 - 2013 in 4 ‘power games’. After an introductory overview, each of these power games and their respective impacts on the stability of the IOR, are presented and discussed below in ‘Parts (i) – (vi)’:

- (i) Event(s) which functioned as a catalyst or ‘trigger’ for each power game
- (ii) The players in each power game and the level (IOR, M_G or nationally) at which each game was played
- (iii) The specific objectives of the players, what was at stake in each game, and a summary of what each game was about
- (iv) The moves of each game
- (v) The outcomes of each game
- (vi) IOR stability impact assessments and explanations of those assessments in terms of historical dependencies and the power dependence responses of the GM and MU

Parts (i) – (iii) are summarised for each game in Table 16 below. The objectives of each of the players and the implications of these for what was at stake in each game are then discussed. In Part (iv), the moves are summarised and presented in Tables 17-20: power game 1 in Table 17; power game 2 in Table 18; power game 3 in Table 19; power game 4 in Table 20. In Part (v) the outcomes of each game are summarised. This is followed by Part (vi) in which firstly, a summary is presented in Table 14(iii) of the IOR stability impacts and power dependence responses of the GM and MU for the period 2008-2013, and secondly, explanations of the IOR stability impacts are presented in narrative form for each game.

³⁹¹ Source: ‘Financial Strategy for Workforce Transformation’ GM Presentation to London Deans, June 2010 – Archive 82.

³⁹² Source: JM Consulting Limited (2008) – Archive 29.

³⁹³ Source: Middlesex University Financial Statements and Annual Reports 1993-2013 – Archive 18 for summary statistics.

³⁹⁴ Source: Department of Health (2006b)

³⁹⁵ Source: NMC (2007).

³⁹⁶ Source: NMC (2010).

6.4.1.2.1 Overview of Power Games 1-4

Each power game was initiated by the GM as a response to 'trigger' events which were exogenous to the IOR. In each power game these events were either purely exogenous to the M_G (as in power game 2) or were both exogenous as well as endogenous to the M_G (as in power games 1, 3 and 4). Power games 1, 3 and 4 were played out at the level of the M_G as well as at the IOR level; the GM and MU were players in these games. Power game 2 was played out at a national level; the GM was a player in this game; through its representatives (CoDH and UUK) in the national level negotiations, MU was indirectly a player in this game.

The conditions under which the IOR existed in power games 2 and 3 were those of bilateral monopoly. This applied only to the dimensions of the price component of the IOR which were affected in these games; on all other dimensions the IOR continued to exist under conditions of M_G . The conditions under which the IOR existed in power games 1 and 4 changed over time: at the outset of these games the sellers acted in concert and these games were played under conditions of bilateral monopoly. Ultimately, however the outcomes of the games became determined under conditions of M_G .

In power game 1 the potential impact of the relevant exogenous events (GM restructuring and 'World Class Commissioning' - WCC) was primarily on the priorities of the GM and on its ideas about how it could and should pursue the optimisation of its VFM objectives in the IORs in the M_G , including in its IOR with MU. One of the aims of the GM in power game 1 was to increase the flexibility it had contractually in its IORs in the M_G .³⁹⁷ The main aim of the suppliers, including MU, was to maintain (or as in MU's case, to obtain) the security of supply provided to them under the NSC.³⁹⁸

In power game 2 the overall aim of the GM was to defend the resources it had from being depleted by a nationally agreed price increase for the suppliers' outputs in the M_G .³⁹⁹ The overall aim of the suppliers was to get implementation of the price for their outputs which had already been agreed nationally and in doing so to preserve the underlying basis of price, viz. that price should equate to the full costs of the suppliers education provision in the M_G .⁴⁰⁰

In power game 3 the overall aim of the GM was to get the suppliers in the M_G to bear the full costs of the GM meeting its FWST objectives through a transfer of risk relating to student attrition.⁴⁰¹ The overall aim of the suppliers was for the status quo to be maintained, in which the risks of attrition in were equally shared between the GM and its suppliers (including MU).⁴⁰²

Power game 4 was partly a continuation of power game 3 in that the overall aim of the GM was to meet the same FWST (now EDA) objectives. However the stakes of game 4 were higher than those of power game 3 in that the GM also sought to optimise its 'supplier landscape' while at the same time ensuring an overall continuity of supply in the M_G was maintained so that the GM's workforce planning objectives were met.⁴⁰³

In effect, power games 1-3 were zero sum games; power game 4 was a zero sum game in most respects. In all of these games there was conflict between the aims and objectives of the GM and

³⁹⁷ Source: NHS London (2007).

³⁹⁸ Source: LDHG letters to the GM June 2008, July 2008 – Archives 87, 88.

³⁹⁹ Source: DH letter to the CoDH March 2009 – Archive 91.

⁴⁰⁰ Source: CoDH/UUK reports and correspondence – Archives 89 - 90, 92 – 94.

⁴⁰¹ Source: GM presentation to the LDHG July 2010 – Archive 12.

⁴⁰² Source: MU email and attachment to the HEFCE September 2010 – Archive 12.

⁴⁰³ Source: GM presentation to the LDHG 'Education Planning and Market Update' March 2011 – Archive 130

those of its suppliers (including MU). In power game one the conflict was about the distribution of risks, specifically in the flexibility in the IOR sought by the GM and the security of supply sought by the suppliers. The conflicts in power games 2, 3, and 4 were about the distribution of benefits as well as of risks in the IORs between the GM and its suppliers, and in power game 4 conflict was also about the allocation of the GM's demand for output quantities between its suppliers. The stakes in all of these games were relatively high to each of the players.

6.4.1.2.2 Parts (i) – (iii): Trigger Events, Game Players, Level of Game and Specific Objectives of the Players

These are summarised for each game in Table 16 below.

Caption to Table 16

The framework used to analyse Power Games 1-4 is presented in this Table:

- The 'Principal Players', key events which triggered each game ('Trigger events'), the institutional levels (sector/IOR/ inter-sector) at which each game was played and the overall type of game are set out in the yellow highlighted rows in the table
- The IOR dimensions that were relevant for each game are set out in columns 1 and 2 e.g. the relevant dimensions for Power Game 1 were dimensions 1-4, 6 and 10.
- The objectives which the Principal Players had in each power game are set out in columns four and five. The sources of evidence for the players' objectives are set out in column six.

TABLE 16: Power Games 1-4 Relevant IOR Dimensions; Principal Players; Level of Game; Players' Objectives				
Power Game Title, Trigger Events, Principal Players & Level of Play	GM Specific Objectives	MU/LDHG/CoDH Specific Objectives	Sources of Evidence of Objectives	
Power Game 1 IOR Rules Change. Trigger Events: GM restructurings 2006; FESC 2006 & WCC 2007; GM VFM Strategic Framework 2007.	GM, LDHG, MU. This power game was played out at the individual IOR level (GM & MU) and at the level of the M _c (GM & LDHG).			
1 Duration	5 year fixed duration extendable for a period of one year by the GM serving 12 months notice before the end of the initial or renewed term and by the HEI (MU) accepting the extension.	Open ended, later amended to a 'compromise offer: annually rolling 5 year duration	GM: Draft 'London Education Contract' (LEC) sent to HEIs on 30 May 2008 - Archive 86. LDHG/MU: Letters LDHG to GM June 2008 and July 2008 - Archives 87 & 88	
2 Termination	Termination, full or partial (i) on notice of one academic year (ii) 6 months on material breach not remedied	Termination, full or partial as per the National Standard Contract (NSC) viz. (i) by mutual agreement of the parties (ii) 6 months on material breach not remedied	GM: Draft 'London Education Contract' (LEC) sent to HEIs on 30 May 2008 - Archive 86. LDHG/MU: Letters LDHG to GM June 2008 and July 2008 - Archives 87 & 88	
3 Compliance - Information; Management & Review	Formalisation of 'Contract Performance Management' (CPM) system: new information requirements relating to 14 'KPIs' & new review requirements including quarterly rolling action plans	Price uplift to compensate for extra management & administrative burden associated with the CPM system (as compared with information & review requirements under existing arrangements)	GM: Draft 'London Education Contract' (LEC) sent to HEIs on 30 May 2008 - Archive 86. LDHG/MU: Letters LDHG to GM June 2008 and July 2008 - Archives 87 & 88	
4 Placement Responsibilities	All responsibilities for securing, planning, organisation and management of placements to be borne by the HEI (MU)	Placement responsibilities to be shared equally between the parties as per the NSC viz. a tripartite contractual arrangement between the GM, HEIs/MU and the NHS placement providers	GM: Draft 'London Education Contract' (LEC) sent to HEIs on 30 May 2008 - Archive 86. LDHG/MU: Letters LDHG to GM June 2008 and July 2008 - Archives 87 & 88	
6 Output Floors and Ceilings	No limits to annual changes (+/- %) to new commissions quantities	Provision to be made, as under the NSC, for limits to annual changes (+/- %) to new commissions quantities	GM: Draft 'London Education Contract' (LEC) sent to HEIs on 30 May 2008 - Archive 86. LDHG/MU: Letters LDHG to GM June 2008 and July 2008 - Archives 87 & 88	
10 Basis of Price - FEC	Price to be in accordance with the BMP agreed nationally	Price to be in accordance with the principle underpinning the BMP, viz. price ≈ HEI FEC	GM: Draft 'London Education Contract' (LEC) - Archive 86. LDHG/MU: Letter LDHG to GM July 2008 - Archive 88	
Power Game 2 Veto. Trigger Events: BMP Review & Negotiations 2007-2009.	GM, DH, UUK/CoDH, HENSE. This power game was played out at a national level. The GM had a seat at the game table; MU did not, other than through its representatives UUK/CoDH.			
12 Actual Price v Supplier's Actual/Planned Full Economic Costs (FEC)	No increase in core unit price to be made for 2009/10 - actual price to be contained to 2008/09 level in real terms	12.9% increase on core unit price as per the 2008 agreement between the DH and UUK/CoDH and based on recommendations from JM Consulting	GM: DH Letter to CoDH March 2009 - Archive 91; BMP Agreement May 2009. CoDH/UUK: Reports & Correspondence - Archives 89-90, 92-94	
10 Basis of Price - Full Economic Costs (FEC)	Basis of price to be what the GM decides is 'affordable' within the GM's budgets	Basis of price to be: price ≈ FEC of HEIs for outputs of requisite quality	GM: DH Letter to CoDH March 2009 - Archive 91; BMP Agreement May 2009. CoDH/UUK: Reports & Correspondence - Archives 89-90, 92-94	
9 Basis of Price - Innovation	5% 'innovation premium' to be introduced from 2009/10: a discretionary payment by the GM of up to 5% on performance criteria set by GM	No offset to be made on the 12.9% core unit price increase (see IOR dimension 12 above)	GM: DH Letter to CoDH March 2009 - Archive 91; BMP Agreement May 2009. CoDH/UUK: Reports & Correspondence - Archives 89-90, 92-94	
Power Game 3 Coalition & Lobbying. Trigger Events: Global Financial Crisis 2007-2008; 'Nicholson Challenge' 2009; MU NHS Contracts Reviews 2006, 2009.	GM, LDHG, MU. This power game was played out at the level of the M _c (GM & LDHG). MU was able to advance its interests by becoming a principal player on behalf of the LDHG.			
11 Basis of Price - OBC Risk	Unit prices payable only for fte programme completers (risk of student attrition on 3 year programmes to be fully borne by MU). Phase in by 2011/12. Overall objective to cut the MPET budget for London by 20% by 2014/15.	Unit prices payable for FTE years completers; BMP to rise by 5% in lieu of the 5% quality premium (risk of student attrition ≈ equally shared between MU and GM)	GM: Presentation to LDHG July 2010 - Archive 12. MU: Email & attachments MU to the HEFCE, September 2010 - Archive 12	
Power Game 4 Exercise of Discretion. Trigger Events: Outcome of Power Game 3; Outcomes of ECR Project 3; Linkage of NHS Workforce & Education Plans.	GM, LDHG, MU. This power game was played out at an IOR level (e.g. GM & MU) and at the level of the M _c (GM & LDHG).			
8 Trends in GM Demand for Output Quantities	To make reductions by 2012/13 of c. 20% - 25% in pre-registration GM outputs demand through a tender-based allocation of GM demand between suppliers while maintaining quality and continuity of supply in the M _c .	To persuade GM to delay tender allocation process to 2013/14	GM: Presentation by GM to LDHG November 2010 - Archive 79; GM Letter to LDHG July 2011 - Archive 81; Invitation to Tender issued September 2011 by GM to all suppliers in the M _c (incl. MU) - Archive 47. MU/LDHG: MU & LDHG emails to GM June/July 2011 - Archive 96	
7 Size of Short Run Variability of Output Quantities	Ditto	Ditto	GM: Presentation to all HEIs in M _c incl. MU - Archive 80; Invitation to Tender issued by GM to all suppliers in the M _c (incl MU) September 2011 - Archive 47	
11 Basis of Price - OBC Risk	By 2014/15 to negotiate with all suppliers (including MU) in the M _c a move away from the BMP (FEC) basis of price to an OBC (completed programmes) basis where risk of student attrition is wholly borne by all suppliers (including MU) in the M _c .	No objective specified	GM: Invitation to Tender issued by GM to all suppliers in the M _c (incl MU) September 2011 - Archive 47	
10 Basis of Price - Full Economic Costs (FEC)	Ditto	No objective specified	GM: Invitation to Tender issued by GM to all suppliers in the M _c (incl MU) September 2011 - Archive 47	
3 Compliance - Information; Management & Review	By 2012/13 to replace the CPM system with a new QCPM (Quality & Contract Performance Management) system. QCPM = CPM augmented by proxy indicators for quality, and entailing substantial increase in compliance information and review.	No objective specified	GM: Invitation to Tender issued by GM to all suppliers in the M _c (incl MU) September 2011 - Archive 47	

6.4.1.2.3 Power Game 1 – IOR Rules Change: Players' Objectives and Stakes, IOR Dimensions 1-4, 6 and 10

The first of the four ECR projects – the LEC – was from the standpoint of the GM crucial to the pursuit of its overall aim to maximise the VFM outcomes from education commissioning. The LEC was designed to replace all of the existing contracts the GM had with its suppliers (including MU) in the M_G: the individual IORs between the GM and its suppliers in the M_G would continue to be contract based but the outcome sought from the LEC project was that all of these contracts would become identical to each other. The objectives of the GM on IOR dimensions 1 and 2 were formulated to provide the GM with flexibility in the management of its supplier base; this was particularly the case in relation to dimension 2 where the GM could on one years' notice terminate any individual IOR contract.⁴⁰⁴ This contrasted with the objective of the LDHG and MU which was for security of supply and for which they sought an 'evergreen' contract such as the NSC.⁴⁰⁵ Flexibility was also the underlying objective of the GM on dimension 6, here in regard to giving it the flexibility to vary the quantity of outputs it demanded from year to year.⁴⁰⁶ This also contrasted with the NSC (and the objective of the LDHG and MU) which had floors and ceilings in the variability of output quantities from year to year.⁴⁰⁷

The LEC was also crucial from the GM's standpoint in regard to its second ECR project, quality assurance. To become established in the IOR the GM's envisaged system of quality assurance (the CPM system) required to be an integral part of the conditions of the LEC. The underlying objective of the GM in IOR dimension 3 was through the CPM system to increase its control in the IOR over output quality through increasing its surveillance in the IOR.⁴⁰⁸ The objective of the LDHG and MU was to minimise the administrative and management burdens which would be introduced by the CPM system into what was already a highly regulated and monitored part of the education provision.⁴⁰⁹ At the minimum, the LDHG and MU sought compensation for the additional burdens which they would have to bear, so that on IOR dimension 10 the basis of price would continue to be predicated on the principle that it should cover HEIs FEC (as stated in the NSC).⁴¹⁰ In contrast the GM's objective on IOR dimension 10 was simply that price should conform to what was agreed nationally – no mention was made by the GM about the FEC principle as the basis of price.⁴¹¹

In relation to IOR dimension 4: here the objective of the GM was twofold: (i) to simplify the contractual arrangements by moving away from the tripartite arrangements between the GM, the education suppliers these including MU) and the NHS placement providers in which all three of these organizations had responsibilities for placement provision and quality (ii) to transfer to HEIs in the M_G (including MU) all of the responsibilities for, and associated burdens with, securing the necessary supply of placements for the practice component of the pre-registration programmes.⁴¹² From the standpoint of the LDHG and MU this latter objective of the GM seemed to be perverse: the supply of placements was up to the placement providers. The placement providers were accountable to the GM, not to the HEIs such as MU. In regard to the quality of placements, a good deal hinged on the organizational context within which the placements took place and also the time which the qualified

⁴⁰⁴ Source: Draft LEC May 2008 – Archive 86.

⁴⁰⁵ Source: LDHG letters to the GM June 2008, July 2008 – Archives 87, 88.

⁴⁰⁶ Source: NHS London (2007); Draft LEC May 2008 – Archive 86.

⁴⁰⁷ Source: LDHG letters to the GM June 2008, July 2008 – Archives 87, 88.

⁴⁰⁸ Source: NHS London (2007); Draft LEC May 2008 – Archive 86.

⁴⁰⁹ Source: LDHG letters to the GM June 2008, July 2008 – Archives 87, 88.

⁴¹⁰ Source: LDHG letter to the GM July 2008 – Archive 88.

⁴¹¹ Source: Draft LEC May 2008 – Archive 86.

⁴¹² Source: NHS London (2007); Draft LEC May 2008 – Archive 86.

mentors (who were employees of the placement providers) were able to devote to supervising and supporting the students. As analysed by the CoDH who advised the LDHG and MU on this matter, this requirement of the GM would bring to an end the formal basis of collaboration which had underpinned the HEI – placement provider relationship from the time that the NHS-HE inter sector relationship had first been established c. 15 years earlier.⁴¹³

6.4.1.2.4 Power Game 2 – Veto: Players’ Objectives and Stakes, IOR Dimensions 12, 10 and 9

In implementing the BMP in the M_G in 2007 the GM had on the face of it relinquished its role in price determination in the M_G, which henceforth was to be negotiated nationally. Thus the subsequent intervention by the GM in what was supposed to be a national negotiation and with no formal standing to make such an intervention was a remarkable event. At stake was not simply the actual level of the BMP and its future basis (IOR dimensions 12 and 10) but also the legitimacy of the GM to intervene in national level negotiations. The objective of the CoDH/UUK was an implementation of the BMP as JM Consulting had recommended and by that means also to maintain the FEC basis of price.⁴¹⁴ The objectives of the GM - to prevent the previously negotiated increase to the BMP and to introduce a quality premium in lieu of that increase to the BMP⁴¹⁵ - were contrary to the FEC basis of price. Overall, the stakes in this game were relatively high, not only in terms of the percentage difference between the two sides on unit price (8.9%) but also in terms of the process of price determination and the future basis of price both in the M_G and nationally. It is possible that the CoDH and UUK did not at the time fully appreciate the stakes involved in this game.⁴¹⁶

6.4.1.2.5 Power Game 3 – Coalition and Lobbying: Players’ Objectives and Stakes, IOR Dimension 11

From MU’s standpoint, the stakes in this game could scarcely have been higher: if the GM secured its objective of meeting its FSWT objectives through the introduction of OBC on a programme completion basis then the IOR would no longer have been viable from MU’s standpoint. On a historic simulation of the impact of OBC, MU calculated that it would have sustained the equivalent of a 22% cut in the unit price; given the lack of control which MU had over the majority of the relevant factors determining student attrition, and on the basis of the detailed assessments MU had made in the previous 12 months about the financial sustainability of its NHS contracts, MU believed that the introduction of OBC would have left it with no reasonable alternative other than to terminate its IOR and exit from the M_G.⁴¹⁷ From the GM’s standpoint, once it had assumed that OBC in the M_G was a feasible and sustainable option, OBC was also attractive because it offered the promise that the GM

⁴¹³ Source: CoDH analysis of draft LEC 2008 – Archive 97.

⁴¹⁴ Source: CoDH/UUK reports and correspondence – Archives 89 – 90, 92 – 94.

⁴¹⁵ Source: DH letter to CoDH March 2009 – Archive 91.

⁴¹⁶ In an email to its members recommending what became the final agreement on the BMP in 2009, the CoDH stated: *‘We believe that this is the best deal we can get in the circumstances. After all the kerfuffle of the last three months, this is really little different from the original agreement made last autumn, with the exception of the GDP minus 0.5% factor, which will be reviewed in two year’s time.’* Source: CoDH email to members, 21st May 2009 - Archive 144. As can be inferred from the summary of the outcomes of the power game given in Table 18 below, this assessment by the CoDH, that the final agreement on the BMP was little different from the original agreement, was unsound.

⁴¹⁷ Source: MU presentation to LDHG about OBC July 2010 – Archive 121; MU briefings of the HEFCE on OBC September 2010 – Archive 124. At the time, MU’s most recent assessment of the financial sustainability of its NHS contracts had been made in 2009 – Archive 20.

would achieve its FWST objective of securing a 20% cut to the MPET budget and because of the apparent ease with which OBC, once agreed, could be implemented in IORs throughout the M_G.⁴¹⁸

6.4.1.2.6 Power Game 4 – Exercise of Discretion: Players’ Objectives and Stakes, IOR Dimensions 8, 7, 11, 10, 3

In 2010 the GM received the first results from its third ECR project, the creation of a systematic link between NHS workforce planning and NHS education commissioning; these results indicated in order to avoid a situation of over-supply that relatively substantial reductions in the NHS non-medical workforce should be made by 2014/15.⁴¹⁹ Consequently in respect of education commissioning, reductions also needed to be made in the GM’s demand for output quantities. Given the 3 year duration of education programmes at pre-registration level those reductions needed to be front loaded. The size of the reductions was such that the GM saw its way to achieving its ECR (formerly FWST) objectives entirely through reductions in its demand for output quantities i.e. without the need for OBC.⁴²⁰ From the GM’s standpoint therefore, the stakes in this power game (achievement of its ECR objectives) were the same as in power game 3.

However, there were further potential issues in this power game: the size of the cuts entailed in some non-medical roles, especially adult nursing and physiotherapy, were relatively substantial. Given that these cuts were to be made in the short run (thus potentially affecting IOR dimension 7 as well as dimension 8) this gave rise to a potential instability in the GM’s supplier base. For this reason the GM believed that the way in which the reduction in its demand was made was important and decided to initiate its fourth ECR project – ‘management of the supplier landscape’.⁴²¹

From the standpoint of MU as well as the other suppliers in the M_G, the way in which the GM made its reductions in demand was also important; a reallocation by the GM of its demand on the basis of the outcomes of a tendering process was perceived by the LDHG members including MU as a higher risk option at least in the short run than one based on a reduction proportionate to each supplier’s historic shares of the GM demand.⁴²²

The stakes in this power game were to increase during the game: when eventually the GM exercised the discretion it had under the LEC 2008 IOR contract for partial termination of the IOR contracts and proceeded with the tendering process to effect its reallocation of demand, the contract it formulated as part of the tender included new IOR rules affecting the basis of price (IOR dimensions 10 and 11) and the requirements for compliance information and review (IOR dimension 3).⁴²³ On price, the GM sought to move away from the BMP and on to an OBC basis.⁴²⁴ Associated with these changes, once implemented, the GM would once again become the sole party with which individual suppliers in the M_G, such as MU, would negotiate on price. In regard to compliance, the changes in the new contract would mean a further substantial increase in the burden on HEIs, in effect consolidating a monitoring creep of surveillance and control on QA processes in the IOR which had been initiated by the GM in 2007.

⁴¹⁸ Source: GM presentation to the LDHG July 2010 – Archive 12.

⁴¹⁹ Source: GM presentation to the LDHG November 2010 – Archive 79.

⁴²⁰ Source: GM presentation to the LDHG November 2010 – Archive 79.

⁴²¹ Source: GM presentation to the LDHG ‘*Education Planning and Market Update*’ March 2011 – Archive 130.

⁴²² Source: MU and LDHG emails to the GM June/July 2011 – Archive 96.

⁴²³ Source: GM ‘*Invitation to Tender*’ issued September 2011 – Archive 47.

⁴²⁴ Source: GM ‘*Invitation to Tender*’ issued September 2011 – Archive 47.

Thus, overall the final stakes in power game 4 went well beyond the original stakes in the game which were about the reduction in the GM's quantities demand and the allocation of that demand, and included further stakes relating to changes in the price and contract components of the IOR, some of which would also increase the discretion and relative power the GM had in the IOR, as well as in the IORs generally throughout the M_G.

6.4.1.2.7 Part (iv): Moves in Power Games 1 - 4

The moves in each game are described in Tables 17 – 20 below.

Caption to Tables 17 – 20

- The moves in each of the power games are set out in Tables 17-20:
 - Table 17 for Power Game 1
 - Table 18 for Power Game 2
 - Table 19 for Power Game 3
 - Table 20 for Power Game 4
- Details of moves (column 4) are presented chronologically by number and date (columns 1 and 2). The players making each move are noted in column 3 and the sources of evidence regarding the moves in each game are noted in column 5.
- The outcomes of each move along with any comments are shown in column 6.
- The overall outcome of the each game is noted in the bottom right hand corner of each Table. For example in Power game 4 (Table 20) the GM achieved its initial objectives in the game and went on to achieve other objectives.

TABLE 17: Power Game 1 'IOR Rules Change' - Moves & Outcomes					
Move No.	Move Date	Move Agent/s	Details of Moves	Sources of Evidence	Comments
					& Outcomes
M1	May 2008	GM	Launch of London Education Contract (LEC) Project: Draft LEC sent to all HEIs in the M _G (incl. MU)	Email & attachments from GM to MU 31 May 2008 - Archive 86	Implementation target date set by GM: September 2008, allowing 3 months for consultation & negotiation
M2	June 2008	LDHG/CoDH	CoDH, commissioned by LDHG, complete comparative analysis of draft LEC & NSC. CoDH identify key differences as contract duration, termination, placement responsibilities, compliance burden and absence of outputs floors in LEC.	Email & attachments from CoDH to LDHG June 2008 - Archive 97	CoDH analysis influential in formulation of LDHG and MU of their objectives in response to the GM proposed LEC.
M3	June 2008	LDHG	LDHG notify GM of concerns over draft LEC and brevity of consultation period.	Letter from LDHG to GM - Archive 98	MU email GM endorsing concerns expressed by LDHG - Source: Archive 98
M4	June 2008	GM	Meeting of GM and senior representatives of all HEIs in the M _G to discuss draft LEC and respond to HEI 'concerns'.	Email & attachments from GM to MU and all other HEIs in the M _G June 2008 - Archive 99	Meeting convened by GM on GM premises and described by GM as a 'workshop'. GM held the floor throughout and used 90 minutes of the allotted 120 minutes making presentations. Altogether 30 minutes allowed for HEIs Q&A of which time the GM spoke for over 20 minutes - Source: the writer was one of the HEI representatives at the meeting.
M5	July 2008	LDHG	LDHG notify GM of continuing concerns and make counter-proposals on contract duration, termination, compliance burden and placement responsibilities.	Email and letter from LDHG to GM 18th July 2008 - Archive 100	As with all LDHG communications to the GM this communication was preceded by extensive email communications between LDHG HEIs in the course of which the final communication from the LDHG to the GM was agreed unanimously by all LDHG HEIs. Copies of all of these communications also held as Archive materials.
M6	July 2008	GM	GM proceeds with LEC project by holding meetings with HEIs individually. GM meeting with MU takes place on GM premises on 24th July 2008. GM middle/junior managers attend but GM decision taker does not attend meeting.	Email & attachments GM to MU 23rd July 2008 - Archive 101.	GM middle/junior managers attend but GM decision taker does not attend meeting with MU - Archive 101.
M7	July 2008	GM - MU	GM produces a new draft LEC for the meeting with MU (and for its individual meetings with other HEIs). Relative to the concerns which had been expressed by the HEIs through the LDHG and individually from the outset of the LEC project there were no changes in the new draft LEC compared with the original draft LEC which the GM had presented.	Ditto.	Under the LEC the GM undertook to implement the BMP in line with what was agreed nationally - Archives 86, 37. As it turned out, less than a year later the GM reneged on this undertaking and forced a national renegotiation on the BMP to take place - see Power Game 2.
M8	September 2008	LDHG	LDHG members meet and continue to express concerns about contract duration, compliance burden and placement responsibilities. However LDHG members seemed resigned to the idea that the LEC as formulated by the GM would be the final LEC that each of them would eventually accept.	Notes of LDHG Meeting of 23rd September 2008 - Archive 102	LDHG members agreed to monitor the experience of the LEC and to review again after a period of 6 months. LDHG members also resolved to seek support from the placement providers over how the issue on placement responsibilities would be addressed in practical terms - Source: Archive 102
M9	November 2008	MU	MU seeks legal opinion on LEC with objective of gaining confirmation that in accepting the LEC the University was entering into commitments that it could meet.	Email & attachments MU DV-C to Solicitors November 2008 - Archive 103	The legal opinion sought concerned whether or not there was anything in the LEC with which it was not possible for MU to comply. The legal opinion sought was not about the commercial soundness of the LEC from MU's standpoint - the legal advisors retained made this latter point clear.
M10	November & December 2008	MU-GM	MU's legal advisors clear the LEC from a potential compliance standpoint; MU and the GM sign the LEC.	Emails MU Legal Advisors to MU, & other MU internal emails - Archive 104; Copy of LEC - Archive 37	With the signing of the LEC, the GM had in effect achieved all of the objectives it had set itself at the outset of this power game. In contrast, beyond the renewal of their contract for supply of the GM's outputs demand and an apparent commitment by the GM to a BMP negotiated nationally, the LDHG members, including MU, had not achieved any of their objectives.

TABLE 18: Power Game 2 'Veto' - Moves & Outcomes					
Move No.	Move Date	Move Agent/s	Details of Moves	Sources of Evidence	Comments & Outcomes
M1	October 2007	DH	DH appoint JM Consulting (JMC) to review BMP; JM Consulting subsequently launch BMP review.	Email & attachments from JM Consulting to MU October 2007 - Archive 105	It had been part of the original BMP agreement in 2003 between the DH and UUK that the BMP would be reviewed every 5 years. This review was in fulfilment of that agreement. Source: Archive 105.
M2	January 2008	JMC (DH)	JMC conclude BMP review and recommend uplift of 12.8% to the BMP effective September 2008.	JM Consulting Report to DH January 2008 - Archive 29	Rationale for JMC recommendation: to bring BMP back to level where the BMP would ≈ to HEI estimated standard full economic costs of delivering the outputs at the requisite level of quality.
M3	September 2008	DH	DH accept JMC recommendations but increase in BMP to be phased in over 2 years - 2008 and 2009.	Email from CoDH to members September 2008 - Archive 106	Only issue at this stage was when the funding of the BMP increase from the NHS MPET budget would become available to allow the full increase to the BMP to be made. The eventual size of the BMP increase (12.8%) was not in dispute.
M4	February 2009	CoDH	CoDH complain to DH that confirmation by DH of BMP second phase increase had not been made as promised.	Letter from CoDH to DH February 2009 - Archive 107	In July 2008 DH had indicated early confirmation to CoDH of BMP increase expected. But no news received despite NHS budgets finalised in December 2008.
M5	March 2009	CoDH	CoDH inform members that DH had reneged on BMP 2008 agreement with CoDH/UUK. Negotiations on BMP increase to be reopened under HENSE arrangements. CoDH advise members to use their V-Cs and Deans to lobby their GMs at top and senior management levels.	Email and briefing from CoDH to members March 2009 - Archive 108	
M6	March 2009	DH	DH brief HENSE that BMP increase not affordable under NHS 2009/10 budget allocations.	DH paper to HENSE, March 2009 - Archive 108	
M7	March 2009	CoDH	CoDH update brief of members, state it was the intervention of the IOR GM which had stopped the BMP increase - 8 of the 9 other GMs had already budgeted to pay the increase; CoDH brief HENSE & dispute the claim made by the DH to HENSE that the increase was not affordable within the 2009/10 MPET budget.	CoDH Briefings to members March 2009 - Archive 109	Evidence subsequently obtained from the 2008/09 and 2009/10 accounts of the IOR GM supported the CoDH assertion that the BMP increase <i>had</i> been affordable: in 2008/09 the GM recorded a surplus of c. £17.9m on its MPET budget. In 2009/10 the 2008/09 surplus was carried forward and increased to c. £27.7m. To fund the whole of the BMP increase (12.9%) that had been previously agreed by DH (of which 3.9% had already been implemented in 2008/09) would have cost the GM an extra c. £13m in 2009/10 [Source: based on GM data for 2007/08 relevant tuition fees were £151m - NHS London (2007) p. 4]. Thus the GM's own accounting records show that it could have afforded the BMP increase in 2009/10. Source: GM accounts reports 2008/09 and 2009/10 available at (i) http://www.webarchive.org.uk/wayback/archive/20130329111110/http://www.london.nhs.uk/webfiles/Corporate/old%20sha%20ars/NHSL_AR_09_LR.pdf and (ii) http://www.webarchive.org.uk/wayback/archive/20130329111111/http://www.london.nhs.uk/webfiles/Communications/NHSL_Annual%20Report%202009-10_web.pdf Accessed April 2015
M8	March 2009	UUK	UUK brief V-Cs about BMP negotiations: 'HE representatives at HENSE made clear that universities cannot subsidise health service education'; 'health service efficiency measures are not applicable to the university sector'. UUK suggest V-Cs follow up with their GMs accordingly.	UUK letter to V-Cs March 2009 - Archive 110	
M9	March 2009	LDHG	LDHG write to GM reminding GM that LEC had been agreed on undertaking from GM it would implement BMP nationally agreed and stating concerns of LDHG members about future quality of education provision in event that full BMP uplift was not given.	LDHG letter to GM 26th March 2009 - Archive 111	GM did not respond to the letter from LDHG.
M10	April/May 2009	HENSE: CoDH/UUK, DH, GMs	Agreement on BMP uplift reached under HENSE protocol: No 2nd stage BMP; a 5% 'Premium' on the BMP linked to innovation and student attrition outcomes, payable at GM discretion.	CoDH email and attachments to members May 2009 - Archive 112	With this agreement the GM had achieved all of the objectives it had set itself in this power game. Although the introduction of the 'premium' was a positive development from the standpoint of the HEIs (incl. MU) this had come at the cost of a reduction of 5% of the BMP. Further, potentially greater, costs from the HEI's standpoint were implicit in the agreement: (i) in future the BMP did not have to reflect the FEC of HEIs of the NHS education outputs they provided (ii) GMs had established that they individually could veto any BMP settlement agreed nationally and force a renegotiation. In a paper to the HENSE group on 18th March 2009 the DH expressed this as a need to 'ensuring appropriate involvement of SHAs (GMs) in future discussions so that the outcome is "owned" by the SHAs (GMs)'. - Archive 113

TABLE 19: Power Game 3 'Coalition & Lobbying' - Moves & Outcomes					
Move No.	Move Date	Move Agent/s	Details of Moves	Sources of Evidence	Comments & Outcomes
M1	May 2010	GM	GM launches 'Financial Strategy for Workforce Transformation' project. Overall aim to cut MPET budget (£1100m p.a.) for London by 20% by 2014/15	GM email to LDHG HEIs (incl. MU) May 2010 - Archive 114	
M2	May 2010	GM	GM presents options to MU for cuts (i) BMP price cut (ii) Change basis of price to OBC completers (iii) Reduce outputs quantities demanded.	MU internal email summary of meeting with GM - Archive 115	GM makes clear that £500m of MPET budget was out of scope of FSWT project. Focus was on non-medical. Thus c. 35% cuts were being sought from costs of IORs in the M ₀ (incl. MU). Source: Archive 115.
M3	May 2010	MU	MU responds immediately to GM options: price cuts and OBC unacceptable; reductions via outputs quantities [Option (iii)] if carefully managed would be acceptable.	MU internal email summary of meeting with GM - Archive 115	MU priority was to protect the 'unit of resource' equivalent, i.e. The BMP. MU also saw the OBC option as an effective price cut since to a large extent student attrition was not a factor which MU could control. Source: Archive 115.
M4	July 2010	GM	GM presents same 3 options to LDHG (incl. MU). GM invites HEIs to meet individually or together with GM for detailed discussions about FSWT. MU accept GM invitation to meet.	GM presentation to LDHG July 2010; MU email to GM July 2010 - Archive 116	
M5	July 2010	MU	MU complete analysis of potential impact of GM FSWT options. Conclude that OBC would equate to a c. 15% cut in BMP and pose a significant threat to the future financial viability of the IOR.	MU email to Chair of LDHG July 2010 - Archive 117	
M6	July 2010	MU	MU decide to lobby support from other HEIs against OBC option. As a first step MU shares key conclusion of their OBC analysis with Chair of LDHG.	MU email to Chair of LDHG July 2010 - Archive 117	
M7	July 2010	GM; MU	GM invites MU to participate as part of small team in modelling impact of the OBC option. MU seeks to coopt LDHG Chair to the team. In context of lobbying support against OBC option, LDHG Chair states 'there is strength in working on tactics across London'.	Emails between MU & Chair of LDHG July 2010 - Archive 118	Eventually the LDHG Chair on behalf of her University declined to join the proposed team. Two months later the LDHG Chair indicated to the writer that her University was concerned that taking an active stance against the GM OBC option would have provoked reprisals from the GM specifically that the GM would have cut the allocation to them of its outputs demand.
M8	July 2010	MU	MU constructs detailed presentation about potential financial impacts of OBC on IOR from MU standpoint and delivers presentation to GM. MU historic modelling of likely OBC impact shows a potential 22% reduction in unit price to MU. MU recommends FSWT focusses on quantities cuts & not price cuts.	MU Presentation to GM July 2010 - Archive 119	MU historic modelling of likely OBC impact showed a potential c. 22% reduction in the effective unit price (after student attrition) to MU. MU also analysed a completed years OBC option, similar to HEFCE contract arrangements, would result in a c. 5% price cut - source: Archive 119
M9	July 2010	MU	MU delivers presentation to LDHG sharing full analysis of potential impact of OBC and also an analysis of controllable and non-controllable factors in student attrition	MU presentation to LDHG July 2010 - Archive 121	LDHG members endorsed the analysis presented by MU & were unanimous that OBC should be opposed.
M10	July 2010	GM	GM delivers presentation to LDHG focussing on OBC option for FSWT and suggests piloting OBC in 2010/11 with full implementation in 2011/12.	GM presentation to LDHG July 2010 - Archive 120	In its presentation to LDHG the GM did not refer to any of MU analysis and recommendations on OBC which were presented to GM a week earlier (see M8 above). At the meeting of LDHG members expressed skepticism of the GM analysis and rejected the GM's suggestion that OBC be piloted.
M11	August 2010	MU	MU decide to initiate a lobbying campaign at national level, first by seeking support from CoDH to brief & influence HENSE and then to approach the HEFCE.	MU briefing of CoDH on OBC August 2010 - Archive 122	The Chair of CoDH was also a member of the HENSE group.
M12	September 2010	MU	MU discuss OBC campaign with CoDH. CoDH agree tactics of lobbying the HEFCE and HENSE.	MU internal email summarising discussions 8th September 2010 with CoDH - Archive 123	
M13	September 2010	MU	MU brief the HEFCE about OBC, subsequently discuss with the HEFCE potential impact of GM OBC plans, and follow up with written confirmation to the HEFCE of content of MU-HEFCE discussions about OBC. In the discussions the HEFCE express concern about the potential impact of OBC and undertake to follow up the matter in discussions with the GM due to take place during the following week.	MU briefing to the HEFCE September 2010 - Archive 124; MU confirmation of OBC discussions with the HEFCE - Archive 124.	The person at the HEFCE approached by MU was their Associate Director for London, Kent and the East of England. The same individual was also a member of the HENSE group. Thus in one move MU was able to lobby both the HEFCE and a member of the HENSE group.
M14	September 2010	HEFCE	HEFCE feedback to MU that it has been 'reassured to some extent' by the GM in regard to its intentions on OBC, in particular about the treatment of attrition and drop out risk.	HEFCE email to MU September 2010 - Archive 125	MU was concerned that the HEFCE had too readily accepted the assurances given by the GM and consequently would regard the OBC matter as one that could safely be left for negotiation 'locally'. MU decided to address this by making the next move in the game - M16 - a response to the HEFCE.
M15	September 2010	MU	MU responded to the HEFCE by copying them into a detailed briefing to the LDHG and CoD on the technical points of attrition and drop-out risk within an OBC framework. In this briefing MU outlined a basis on which these parameters could be defined and thereby negotiated, and re-emphasising how much potentially would be at stake for those universities with higher 'uncontrollable' attrition.	MU email and attachments to the HEFCE September 2010 - Archive 126.	MU copied in the Chair of the LDHG and the CoDH to its communications with the HEFCE. This included the complete email chain which included the initial written briefing of the HEFCE. In this manner MU sought to keep all relevant parties fully informed, and up to date on the OBC campaign.
M16	September 2010	LDHG	In advance of September meeting of the LDHG, Chair of the LDHG circulates to LDHG members MU email correspondence with the HEFCE and recirculates MU July presentation to LDHG.	Chair of LDHG email and attachments to LDHG members September 2010 - Archive 127	MU receives supportive feedback from LDHG member on clarity of correspondence with the HEFCE about OBC - Archive 128.
M17	September 2010	GM	GM delivers presentation to LDHG similar to that previously delivered to LDHG in July 2010. LDHG members make clear their opposition to OBC and a proposal by the GM that OBC be 'piloted'. MU tells the GM it is trying to prevent it perpetrating a 'disaster' in the M ₀ .		Experience of other 'pilots' in the MG had shown that these were commonly used for purposes of implementation rather than evaluation. MU's expectation was that a 'pilot' of OBC would be most likely to result in OBC being introduced through the 'back door'.
M18	November 2010	GM	GM delivers presentation to LDHG indicating that alternative options to OBC had become available for the GM to achieve its FSWT objectives. The GM gave notice to the LDHG that these options would now be pursued. This in effect was the start of 'Power Game 4' - see Table 20.	GM presentation to LDHG on FSWT options November 2010 - Archive 129	Through lobbying and coalition MU had achieved its objective of blocking the introduction of OBC (IOR dimension 11). Although the GM had failed to achieve its objective to establish OBC, this may have been regarded by the GM as only a temporary setback. This was not just because the GM had identified other means to achieve its FSWT objectives but also because the GM may have envisaged at some future time it could get OBC back on to the ECR agenda it had for the M ₀ .

TABLE 20: Power Game 4 'Exercise of Discretion' - Moves & Outcomes						
Move No.	Move Date	Move Agent/s	Details of Moves	Sources of Evidence	Comments & Outcomes	
M1	November 2010	GM	GM delivers presentation to LDHG which states the outcomes of a new education planning process showed that GM could achieve its objectives in the 'Financial Strategy for Workforce Transformation' (FSWT) project solely through making reductions in its outputs quantities demand in the M _G . GM would be pursuing this approach and would communicate options to LDHG in due course.	GM presentation to LDHG November 2010 - Archive 129	GM stated that the new education demand assessment' (EDA) system replaced FSWT. 'Prior to the establishment of education planning, there was no systematic process to translate workforce need into education requirements'. Source: GM presentation to LDHG, November 2010 - Archive 129	
M2	March 2011	GM	GM delivers presentation to LDHG which sets out 3 Options to implement its reduced demand for output quantities in the M _G : (i) Allocate GM demand to each supplier in proportion to their historic share of M _G outputs quantities demand ('salami slicing') (ii) Reallocate GM demand to suppliers in accordance with their current and historic position in the M _G performance league tables (piloted in 2007/08 and fully implemented in 2008/09) (iii) 'A structured market intervention': GM allocates its demand in line with outcomes of a competitive formal tendering process to be designed and managed by the GM.	GM presentation to LDHG March 2011 - Archive 130	GM stated that a competitive tendering option might result in a reduction in the overall number of suppliers in the M _G .	
M3	April 2011	LDHG	LDHG write to GM seeking confirmation that GM is consulting with HEIs about options and seeking clarifications about these.	LDHG letter to GM April 2011 - Archive 131		
M4	May 2011	GM	GM write to LDHG stating it was seeking stakeholder views and not conducting a formal consultation. GM also seeking views of NHS workforce employers and state a decision on options would be taken by the NHS Board by end June 2011.	GM letter to LDHG re Education Planning May 2011 - Archive 132	GM responds fully to all queries about options that had been raised by LDHG in their April letter	
M5	June 2011	LDHG	LDHG write to GM stating preferred options for salami slicing for 2012/13 and tendering exercise to take place for GM 2013/14 demand allocations.	LDHG letter to GM June 2011 - Archive 133		
M6	June 2011	LDHG	LDHG write to DH Director of Workforce Planning lobbying for support for pause to Education Planning process while 'new systems of education and training are put in place'.	LDHG letter to DH June 2011 - Archive 134	LDHG seek and gain support from CoDH in lobbying DH. Source: CoDH email to LDHG - Archive 135	
M7	June 2011	DH	DH inform LDHG that it could not interfere with what it regarded as 'a local process', i.e. A process that was entirely within the operational sphere of the GM.	CoDH email to LDHG July 2011 - Archive 136		
M8	June 2011	GM	GM holds individual meeting with some HEIs (incl MU) re Education Planning options. MU express preference for status quo for 2012/13 ('salami slicing') and the structured market intervention for 2013/14.	Notes of MU GM meeting June 2011 - Archive 137	GM states at meeting with LDHG that a 'small majority' of the HEIs it had met in its individual meetings had said they were in favour of structured market intervention for 2012/13. Source: Archive 138	
M9	July 2011	GM	GM informs HEI V-Cs in M _G (incl MU) of its decision to proceed with tendering exercise for 2012/13 demand allocations for pre-registration adult nursing and physiotherapy.	Letter from GM (via email) to V-Cs/DV-Cs of all HEIs in the M _G July 2011 - Archive 139		
M10	July 2011/ August 2011	LDHG/HEIs (incl MU)	Despite launch of the tender process by the GM, the LDHG decide to persevere with lobbying for a year's delay to the process. LDHG lobby GM and the HEFCE member of HENSE.	Letter from LDHG to GM July 2011 - Archive 140; Letter from HEI V-Cs collectively to GM - Archive 141	MU V-C does not sign the letter from V-Cs collectively - sees little prospect of its success. Instead MU DVC sends GM letter - Archive 148	
M11	August 2011	GM	GM writes to HEIs V-Cs reaffirming its decision to proceed with tendering exercise for 2012/13 commissions.	Letter from GM (via email) to V-Cs/DV-Cs of all HEIs in the M _G August 2011 - Archive 142	No further lobbying by the HEIs took place in this power game. All HEIs in the M _G , including MU, agreed individually to participate in the tender process that had been launched by the GM in July 2011. Thus the GM was able eventually to achieve its first objective in this power game which was to reduce as well as to reallocate its output quantities demand between its suppliers (IOR dimensions 8 & 7).	
M12	August 2011 - March 2012	GM	Under the umbrella of the tendering process it had initiated, the GM exercises the discretion it had under the rules of the IOR and serves formal notice on all HEIs individually in the M _G , including MU, of partial termination of the LEC contract and for changing the rules of the IOR via a new LEC contract.	GM letter to MU August 2011 - Archive 143; LEC2 March 2012 - Archives 38, 39	The GM also achieved other objectives via stipulations as part of the new contract for the IORs which it introduced as part of the tender process: (i) increased flexibility on IOR dimension 1: contract duration was reduced to 3 years (5 years under previous LEC) (ii) increased IOR surveillance and control on IOR dimension 3 - new, more onerous on MU, contract compliance system (QCPM) introduced (iii) getting OBC back on the future agenda of the IOR (and M _G) - on IOR dimensions 11 & 10: stipulation in contract that MU and GM will seek to move away from BMP price basis to OBC price basis by 2014/15. Source: Archives 38, 39	

6.4.1.2.8 Part (v): Outcomes of Power Games 1 - 4

Power Game 1: the outcomes of this power game were (i) the GM achieved all of its objectives (ii) beyond obtaining contracts for continuing supply to the GM of its requirements for outputs, the LDHG members, including MU, did not achieve any of their objectives (see Tables 16 and 17).

Power Game 2: the outcomes of this power game were (i) the GM achieved all of its objectives (ii) the HEIs (including MU), which were represented in this national level game by CoDH and UUK, did not achieve any of their objectives (see Tables 16 and 18). Although the introduction of a 'quality premium' was a potential gain from the HEIs standpoint this was not sought by them and it had come at a high cost which the HEIs may not at the time have fully appreciated. The 'final' BMP agreement accepted by the HEIs amounted to a significant departure from the principle that the BMP should equal the FEC of HEIs in their education provision, the establishing of the principle of affordability from the standpoint of the GMs, but not the 'affordability' from the standpoint of the HEIs, as a criterion in the determination of the BMP, and the acceptance that individual GMs which were not directly part of the national level negotiations could veto any 'agreement' reached on their behalf by the national negotiating team.⁴²⁵

Power Game 3: The immediate outcome of this power game was that MU and its coalition partners in the LDHG achieved their objective of blocking the introduction of OBC into their IORs with the GM (see Tables 16 and 19). However, while the GM failed to achieve its objective, it was, subsequent to the conclusion of this power game, able to get OBC put back on to the agenda for future negotiation individually with all HEIs (including MU) in the M_G (see power game 4, Tables 16 and 20).

Power Game 4: The outcomes of this power game were (i) the GM achieved all of its objectives (ii) the HEIs (including MU) did not achieve their objective (see Tables 16 and 20).

⁴²⁵ Sources: DH paper to the HENSE group regarding the BMP March 2009 – Archive 113; BMP 2009 Negotiations Final Agreement May 2009 – Archive 95.

6.4.1.2.9 Part (vi): IOR Stability Impacts: Power Dependence Responses and Historical Dependencies

Power dependence responses of the GM and MU and historical dependencies relevant to the IOR stability impact assessments for the period 2008-2013 are summarised below in Table 14(iii).

Caption to Table 14(iii)

- Shown are the types of historical dependence (HD) processes associated with stability impacts by IOR dimension for each year of the period.

Example: Dimension 1

<u>Years</u>	<u>Stability Impact</u>	<u>HD Process</u>
2008/09-2011/12	S → TRI	Founder (F2)
2012/13	TRI	Founder (F3)

- Shown for each dimension is the incidence of the types of HD processes for each year of the period. Example 2009/10: Initial Conditions – 1 dimension; Founder – 10 dimensions; Forgetting – 4 dimensions; Burden of History – 1 dimension
- Shown are the occurrences of particular types of power dependence responses by the GM and MU respectively for each year of the period. Example 2012/13: MU – Cost Reduction/Productivity Improvement, Acceptance of Increased Risk; GM – Output demand Changes (red crosses in the Table denote reductions in demand from previous year), rent Extraction, Increasing Compliance Surveillance, Exercise of Discretion/Veto, IOR Rules Change, Transfer of Risk.
- Types of power dependence responses by MU and the GM increased during the period, from 6 to 8 different types. By 2012/13 the GM alone was using 6 different types of power dependence responses mainly reflecting a range of strategies it was using to consolidate or increase its domination in the IOR.

TABLE 14(iii): IOR Stability, Historical Dependence Processes and Power Dependence Responses 1995/96 - 2012/13

Historical Dependence Key: IC = Initial Conditions; F/F1/F2/F3 = Founder; FG = Forgetting; BU = Burden of History

IOR Stability Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable

													Stability Impact over Time						
IOR Key Outcomes:	1995/	1996/	1997/	1998/	1999/	2000/	2001/	2002/	2003/	2004/	2005/	2006/	2007/	2008/	2009/	2010/	2011/	2012/	2013/
<u>COMPONENTS & Dimensions</u>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
CONTRACTS																			
1 Duration													FG	F2	F2	F2	F2	F3	
2 Termination													FG	F2	F2	F2	F2	F2	
3 Compliance - Information; Management & Review													IC	F1	BU	BU	BU	F2	
4 Placement Responsibilities													FG	F	F	F	F	F	
OUTPUTS																			
5 Output Specification													F1	F1	F1	F1	F2	F2	
6 Output Floors and Ceilings													FG	F	F	F	F	F	
7 Size of Short Run Variability of Output Quantities													FG	FG	FG	FG	FG	FG	
8 Trends in GM Demand for Output Quantities													FG	FG	FG	FG	FG	FG	
PRICE																			
9 Basis of Price - Innovation													IC	IC	F	F	F	F	
10 Basis of Price - FEC													F2	F2	F3	F3	F3	F3	
11 Basis of Price - OBC Risk													IC	IC	IC	IC	IC	IC	
12 Actual Price v Supplier's FEC													↻	↻	?/F3	?/F3	F3	F3	
PERFORMANCE																			
13 Performance (i)													F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG	
14 Performance (ii)													F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG	
Initial Conditions & Historical Dependence Processes																			
Initial Conditions													3	2	1	1	1	1	
Founder													5	10	10	10	10	11	
Forgetting													8	4	4	4	4	4	
Burden of History															1	1	1		
Power Dependence Responses																			
MU Cost Reduction/Productivity Improvement													X	X	X	X	X	X	
MU Internal Cross-subsidy													X	X	?	?			
MU Acceptance of Increased Risk													X	X	X	X	X	X	
MU Lobbying													X		X	X			
MU Coalition Formation														X		X	X		
GM Output Demand Changes															X	X	X	X	
GM Rent Extraction													X	X	X	X	X	X	
GM Increasing Compliance Surveillance														X	X	X	X	X	
GM Lobbying															X		X		
GM Exercise of Discretion or Veto													X	X	X	X	X	X	
GM IOR Rules Change													X	X				X	
GM Transfer of Risk													X	X	X	X	X	X	

6.4.1.2.10 Power Game 1 - IOR Rules Change: IOR Dimensions 1-4, and 6

As shown in Table 13, the stability impact of the outcomes of power game 1 on dimensions 2, 4 and 6 was a continued 'threatened instability'; on dimension 3 the stability impact changed from being stable to a 'threatened instability'; on dimension 1, the 5 year term of the new contract (the LEC) which superseded the previous 1 year interim contract, meant that on this dimension the IOR became 'stable'.

The strategy of the GM in power game 1 was a process strategy which in its later stage of execution allowed the GM to use its monopsony power to 'divide and rule' its suppliers. In the first half of the game the GM conducted a process of collective consultation and communications with all of its suppliers; in response the suppliers acted in concert and thus the game was played under conditions of bilateral monopoly.⁴²⁶ However in the second half of the game the GM proceeded to conclude the game with a series of individual negotiations with each of the suppliers, including MU; thus the outcomes of the game became determined under conditions of M_G .⁴²⁷ During the individual negotiations MU checked with its legal advisers about the feasibility of MU compliance with the terms of the proposed contract (Table 17, move 9). MU also continued to have informal discussions with other members of the LDHG (Table 17, move 8); however the latter did not lead to any further concerted representation by HEIs to the GM or others about the GM's proposals. Ultimately therefore, in this game MU was alone in facing the GM when the game was concluded.

MU's acceptance of the LEC put forward by the GM can be explained by its resource dependency in the IOR. From a financial standpoint the IOR continued to be critical to MU; although MU had since 2005/06 improved its operating position - by 2007/08 MU was recording an operating surplus of c. 1% to its overall income - that operating position was still relatively fragile and the contribution to MU's overheads made by the IOR continued substantially to exceed that operating performance.⁴²⁸ MU's contractual position in the IOR was also exposed: by December 2008 when MU took the final decision to accept the LEC, the duration of its existing one year interim contract had already come to an end (in August 2006). No other contract options were on the table and the GM had potentially other supplier options it could organise in good time for substitution of MU's supply to be made by the following year 2009/10. In effect there were also no historical dependencies e.g. from lock-ins provided by existing contractual arrangements upon which that MU could rely. Thus from MU's standpoint, there was no status quo contractually which could be defended on the relevant IOR dimensions.

As shown in Table 14(iii), the impact on historical dependencies in the IOR was to create new 'Founder' dependencies in dimensions 1-4 and 6 of the IOR; the basis of these historical dependencies lay in the LEC which MU had accepted.

6.4.1.2.11 Power Game 2 – Veto: IOR Dimensions 12, 10, 9

As shown in Table 13, the stability impact of the outcome of power game 2 on dimension 10 was a continued 'threatened instability'; on dimension 9 the stability impact was to make this stable for the first time in the history of the IOR. The stability impact on dimension 12 was also negative but it is not known for that year (and also for the following year, 2010/11) whether MU's actual FEC exceeded the price it received for its NHS contracts; the improvement in MU's overhead cost

⁴²⁶ See Table 17, moves 1 – 5.

⁴²⁷ See Table 17, moves 6 – 7, and 10.

⁴²⁸ Sources: (i) MU accounts reports for 2005/06 and 2007/08 – HESA and Archive 18; (ii) MU NHS Contracts Financial Sustainability Assessments 2006 and 2009 – Archives 19 and 20.

position started in 2006/07 had continued but it was not known if that improvement had been sufficient to compensate for the shortfall in the BMP which the 2009 national agreement had now opened up.

With its decision to implement the BMP in 2007, the GM had changed the conditions under which future price determination in the IOR would take place from those of M_g to those of a national level bilateral monopoly in which both the GM and MU were represented by others in the processes of negotiation. In this context the strategy of the GM in power game 2 was to exploit ambiguities in the rules of the NHS-HE inter-sectoral arrangements at a national level. Although the DH had negotiated on behalf of the GMs, and the GMs were accountable to the DH, GMs individually in virtue of their statutory duty to meet their RRLs could exercise a veto on matters which threatened the meeting of that statutory duty. By claiming the original BMP agreement negotiated in 2008 was 'unaffordable' the GM was exercising this veto – the GMs meeting of its RRL trumped the rules of the BMP national level negotiations. The GM was not required to prove its claim about the unaffordability of the BMP increase; it was sufficient for the GM simply to make the claim.⁴²⁹

The strategy of the HEI representatives was to lobby HENSE and the DH by disputing the non-affordability claim (8 of the 10 GMs in the country had budgeted for planned the implementation of the originally agreed increase to the BMP) and to argue that the HE sector could not subsidise health service education, to brief their members (including MU) and to encourage the HEI VCs to make direct representation to the GMs (see Table 18, moves M7 - M9). However, at the same time the HEI representatives also agreed to the DH request for an early resumption of the negotiations which in effect gave the HEIs only a few weeks to prepare for the new negotiations (see Table 18, moves M8 - M10).

Perhaps the simplest explanation of the acceptance by HEIs (including MU) of what became the final BMP proposals lies in the combined effect of two factors: (i) the HEI negotiating team had been outmanoeuvred by the DH and ultimately behind the scenes, by the GM in the BMP negotiations; the readiness of the DH to renege on what the HEIs had been led to believe was a firm agreement⁴³⁰ was probably a significant factor in this and one from which the HEI negotiating team never recovered (ii) the lack of dissent from HEIs. For example, when the final proposed agreement was put to its members by CoDH, MU did not dissent. This non-response from MU was partly due to the (erroneous) assessment made by the CoDH on which MU relied, that the final proposals on the BMP were little different from what had been previously agreed. The tacit acceptance by MU of the proposed agreement was also due to the evaluation of the agreement made by the CoDH that it represented the best outcome that could be obtained in the circumstances.⁴³¹ Given that view from the HEI national negotiating team it was not obvious, at least not to MU that any useful purpose would be served by objecting to the proposed agreement which was being recommended by its national representatives.⁴³²

As shown in Table 14(iii), the impact on historical dependencies in the IOR of MU's acceptance of the BMP agreement was to create new 'Founder' dependencies in dimensions of the IOR directly related

⁴²⁹ Although the CoDH had at the time disputed the veracity of the GM's claim about affordability it was unable due to lack of publicly available evidence to pursue this line of attack; the relevant accounting evidence (cited in Table 18 – see under 'Comments' for move M7 of the game) only came to light over a year later, after the GM's accounts for the relevant years had been published.

⁴³⁰ Source: Email and briefing of CoDH to members March 2009 – Archive 108; see Table 18 game move M5.

⁴³¹ Source: CoDH email and attachments to members May 2009 – Archive112.

⁴³² Source: MU senior management. The writer was the lead member of the MU team who assessed whether to accept the CoDH recommendation to accept the final proposed agreement.

to price - dimensions 12, 10, 9, and in dimensions of the IOR indirectly related to price – dimensions 13 and 14. The basis of these historical dependencies lay in the IOR contract on how, in future, price under that contract was to be interpreted and applied.

6.4.1.2.12 Power Game 3 – Coalition and Lobbying: IOR Dimension 11

As shown in Table 13, the stability impact of the outcome of power game 3 on dimension 11 was a continued stability, a stability which had been part of the initial conditions of the IOR when it was established in 1995 and a stability which continued to be maintained throughout the whole of the reference period.

The strategy of the GM in this power game was to conduct a consultation process with the HEIs collectively in the M_G . During that process the GM advocated OBC and offered the opportunity to HEIs to participate in a ‘working group’ to analyse the potential impacts of OBC (see Table 19, moves M1, M2, M4, and M7). Later, at a decisive stage in the process the GM proposed that OBC be ‘piloted’ (see Table 19, move M10). It is fair to state that at the outset of this game none of the HEIs in the M_G , apart from MU, appreciated the magnitude of the stakes in this game and the potential threat to the continued financial viability of all or most of the IORs with the GM in the M_G , not just to the continued viability of the IOR between the GM and MU.⁴³³

Given the magnitude of the stakes in the game and after initial discussions with the LDHG and the GM had taken place, MU decided that a campaign of opposition based on a strategy of coalition with other LDHG members and intensive focussed lobbying both at M_G and at HE-NHS inter-sector levels, was urgently required.⁴³⁴ MU concluded that since it was the only member of the LDHG which was sufficiently knowledgeable about OBC to be aware of the potential consequences of its introduction, it should initiate and lead the campaign. MU accordingly devised a strategy, initiated a campaign and subsequently, with the support of the Chair of the LDHG, took the lead role on behalf of the other members of the LDHG, in that campaign.⁴³⁵ A key part of MU’s strategy was to educate/inform LDHG members about OBC and its implications. MU did this through completing a detailed analysis of the potential consequences of OBC on its own IOR and then sharing that information in full with other members of the LDHG and subsequently also with key influencers at NHS-HE inter-sector level.⁴³⁶

Two explanations of the outcome of this power game are:

(i) The effect of MU’s strategy was that power game 3 came to be played out under conditions of bilateral monopoly. In the game, the countervailing power of the coalition of HEIs proved to be sufficient to maintain the status quo on OBC in the IORs in the M_G and to block the GM in its attempt to change the rules of the IOR on price. From MU’s standpoint a difference in this game from the previous games was that MU’s resource dependency on the IOR was not as significant a factor as it had been previously: the stakes in power game 3 were sufficiently high that continuation in the IOR on the basis of the OBC proposals of the GM would probably have been less attractive to MU than

⁴³³ Source: This feedback was given personally to the writer during the months July 2010 to September 2010 by other HEI members of the LDHG. Supporting evidence for this is in the presentations made by MU to LDHG members during the period and other feedback from MU about OBC - Archives 117, 121, 127, 128.

⁴³⁴ Just as in power game 1, the GM had set a relatively short timescale for the introduction of the new arrangements it was proposing. In power game 1 the GM had given c. 3 months notice. In this power game the GM sought to commence a ‘pilot’ within 2 months of first proposing it.

⁴³⁵ See Table 19, moves M6, M9, M11 – M13, and M15.

⁴³⁶ See Table 19, moves M5, M9, M13, and M15. The Chair of the LDHG continued to be very supportive of MU’s endeavours throughout the campaign, particularly in the sharing of MU analyses and communications at inter-sector level with other LDHG members; for an example of the latter see Table 19, move M16.

exit from the IOR altogether. While this position was never explicitly communicated to the GM, MU did state at the last meeting with the GM and the McKinsey consultant it had retained for its FWST project, that MU was trying its utmost to prevent the GM from perpetrating a 'disaster' in the M_G .⁴³⁷

(ii) Coincidentally shortly after the game had come to a pause (Table 19, move M17), an alternative means arose by which the GM could achieve its FWST objectives (see power game 4); this alternative means also provided the GM with an option to pursue its OBC objective at some later time in a setting largely of its own design and where the risks of facing opposition from a strongly motivated and united coalition of suppliers could be avoided.

As shown in Table 14(iii), the historical dependence on the initial conditions of the IOR in dimension 11 was unchanged and continued to the end of the reference period.

6.4.1.2.13 Power Game 4 – Exercise of Discretion: IOR Dimensions 8, 7, 11, 10, 3

As shown in Table 13 the stability impacts of the outcomes of power game 4 on the relevant dimensions of the IOR were to leave these unchanged: a 'threatened instability' continued on dimensions 8, 3, and 10 while on dimensions 7 and 11 the IOR continued to be stable. However, the threatened instabilities had been reinforced: on dimension 8 the outcome for MU on the reallocation of the GM's output quantities demand was to continue the trajectory of decline which had commenced back in 2006; on dimension 3 the outcome was to increase the burdens on MU associated with contract compliance; on dimension 10 it was to reinforce the threatened instability with the prospective formal re-entry of the GM into price negotiations. The continued stability in 2012/13 on dimension 11 was also potentially only temporary; by 2014/15 there was to be a formal negotiation with the GM on OBC.

Under the 2008 LEC which it had with its suppliers (including MU) the GM had discretion on the serving of the required notice, to terminate those contracts either in whole or in part.⁴³⁸ The strategy of the GM in this power game was (i) to exercise the discretion it had under the LEC to terminate its IOR contracts in the M_G (ii) to initiate and complete a process of tendering in the M_G . The tendering process was particularly attractive to the GM because it had discretion under that process substantially to redraw the future contracts of the IORs it had in the M_G . Once the process was formally under way then the rules of that process prohibited the 'bidders' (prospective suppliers) from 'colluding' with each other by whatever means such as by coalition. The tactics used by the GM in the game included (i) completing the formalities of 'seeking the views' of the HEI suppliers (including MU) on an individual basis (ii) obtaining the support of the NHS employers on whose behalf they were the education commissioners and (iii) exercising its discretion to redraw the IOR contracts in the M_G (see Table 20, moves M2, M4, M8, M9 and M10).

The HEIs' strategy was to act in concert and seek to persuade the GM to delay the execution of its plan; the HEIs also lobbied the DH and eventually also a member of the HENSE group (see Table 20, moves M5, M6 and M10).

Explanation of outcomes of Power Game 4: Power game 4 was similar to power game 1 in so far as at its concluding moves were between the GM and MU each acting just on their own behalf as the organizations in the IOR (see Table 17 moves M9 and M10, and Table 20 moves M11 and M12). Thus although the HEIs had tried to get the game played out under conditions of bilateral monopoly,

⁴³⁷ Source: This was a statement made by the writer to the Interim Manager for the GM FSWT project at the LDHG meeting with the GM on 23rd September 2010 – Table 19, move M17.

⁴³⁸ Source: MU NHS London Pre-registration Education Contract (LEC) 2008/09-2012/13 – Archive 37.

ultimately the GM was able to exercise its discretion to ensure the outcomes of the game were determined under conditions of M_G .

As in power game 1, MU's acceptance of the GM's invitation to tender and subsequently of the 2012 LEC can be explained by its resource dependency in the IOR. Just as in 2008 when MU accepted the 2008 LEC, the IOR was critical to MU from a financial standpoint. MU's operating surplus in 2011/12 was c. £7.7m (c. 4.4% of its total income for that year).⁴³⁹ The contribution to MU's overheads from the IOR in 2011/12 was c. £6.6m; MU's FEC position on its NHS contracts was also positive.⁴⁴⁰ Consequently, from MU's standpoint with the IOR still under conditions of M_G (i.e. no other buyers for MU's NHS outputs and no other economically feasible deployments available for MU's dedicated NHS resources), it had no better option than to continue in the IOR. Contractually there was no status quo option either for MU: the GM had exercised the discretion it had under the 2008 IOR contract and given the requisite notice to MU.⁴⁴¹ Furthermore, the relatively little resource dependence of the GM on the IOR was expected to reduce further: the tendering process the GM had initiated was expected ultimately to provide more potential suppliers options in the M_G from which the GM would be able to choose.

As shown in Table 14(iii), the impact on historical dependencies in the IOR was to create new 'Founder' dependencies in dimensions 1 and 3 of the IOR; the basis of these historical dependencies lay in the 2012 LEC which MU accepted by its submission of a tender to the GM. Under the 2012 LEC there was also the potential by 2014/15 for new Founder dependencies to be created in IOR dimensions 10-14.

6.5 Historical Dependencies and Resource Dependencies 1995 - 2013

The relationships between historical dependencies and resource dependence in the IOR were important determinants of stability impacts on dimensions of the IOR over the reference period. The aim of this section is to explain those relationships and thereby to develop the conclusions about IOR in/stability which were presented in the previous sections of the Chapter.

Historical dependence (HD) processes were relevant to the IOR and the impacts on IOR in/stability at two levels (i) at the macro institutional level, specifically at the level of the M_G in which the IOR was embedded (ii) at the IOR level, specifically at the level of the different dimensions of the IOR.

6.5.1 M_G level

the establishing of the IOR within an M_G context functioned to create a HD: the persistence of the M_G in most of its essential conditions over the reference period meant that a 'Founder' type of HD between the IOR and the M_G was created.⁴⁴² Once the IOR was established in 1995 and MU had made its resource commitments to the IOR under conditions of M_G , then the M_G itself also became one of the main sources of power imbalance, in favour of the GM, between the GM and MU in the IOR. Thus resource dependence in the IOR – RD(IOR) – and historical dependence at M_G level –

⁴³⁹ Source: MU annual report and accounts 2011/12 – Archive 18.

⁴⁴⁰ Source: MU NHS Contracts Financial Sustainability Assessment 2012-2015 – Archive 22. The figures calculated in MU's NHS sustainability assessment for 2012/13 are used as a proxy for 2011/12 financial performance.

⁴⁴¹ Source: GM letter to MU giving notice of partial termination under the 2008 LEC, August 2011 – Archive 143

⁴⁴² The exceptions to these conditions were on dimensions in the price component of the IOR when from 2007 these were partly under conditions of bilateral monopoly. The exceptions and the stability impact on the relevant dimensions of the IOR are discussed earlier in Chapter 6 under power games 2 and 3.

HD(M_G) - acted in combination as a determinant of in/stability impacts in the IOR – I/S(IOR). A shorthand description of this is expression (a) below:

$$I/S(IOR) = f[RD(IOR) * HD(M_G), \dots] \quad (a)$$

where:

I/S(IOR) = stability (S), instability (U), and threatened instability (TRI) in dimensions of the IOR;

In the right hand side of expression (a) above: the asterisk denotes the *combination* of resource dependence (RD) with HD processes at the M_G level; the dots denote other variables which could be relevant to the in/stability of the IOR. As indicated for events shown in Table 21 under the Contracts component of the IOR, during the reference period of the IOR, these variables included the demand from the NHS for newly registered non-medical professional staff and the placement capacity to train prospective non-medical professional staff. At the IOR level (below) these variables included the compatibility in the objectives of the GM and MU and their respective powers in regard to the achievement of their shared objectives in the IOR.

6.5.2 IOR level

HD processes affected stability impacts on all IOR dimensions over the reference period:

IOR dimensions 1-6 and dimensions 9-12: HD processes ('initial conditions' and 'founder') became locked in; the rules or conditions and terms stipulated in the IOR contracts functioned as the mechanism which locked in these HD processes. The lock-ins lasted for as long as the IOR contracts were in force. However, just because a HD lock-in had occurred did not mean that the lock-in was guaranteed to continue beyond the term of a given contract or in perpetuity: either the GM or MU could seek a change at the time the IOR contracts came to be renewed or had reached the end of their specified duration. Thus there was always a potential for the rules of the IOR to be changed. But whether or not the rules of the IOR were actually changed depended largely on implications those changes had for the distribution of benefits in the IOR between the GM and MU and on the power imbalance between the GM and MU. Since the main sources of what became the imbalance of power in favour of the GM was the combination of MU's resource commitment to the IOR and the conditions of M_G, then ultimately the continuation of HD process in specific dimensions of the IOR was also dependent on MU's resource dependency in the IOR.

IOR dimensions 7 and 8: Given the definitions of these dimensions, only recent history or the history of the previous 3 years was relevant to their stability; in effect, 'forgetting' was the type of HD process involved. Recent events which had the potential for a large stability impact on these dimensions were often exogenous to the IOR and associated with NHS funding decisions taken annually in the macro political environment of the M_G.

IOR dimensions 13 and 14: Two different types of historical dependence – 'forgetting' and 'founder - operated simultaneously on these dimensions. In respect of compliance with GM output quantities and quality requirements (dimension 13) and also in respect of compliance with the requirements of the regulatory professional body, it was the recent performance of MU which was relevant; the recent performance on these requirements and the consequent impact on MU's reputation was also relevant in respect of MU's IOR performance requirements (dimension 14).

However a ‘founder’ type of HD was also relevant on these two dimensions: in relation to the GM’s requirement for the VFM performance of the IOR (part of dimension 13), and in relation to MU’s requirement for the financial performance of the IOR (part of dimension 14). In both of these cases this was because the actual price level set in the IOR had an impact on the IOR’s VFM performance from the GM’s standpoint and on the IOR’s financial performance from MU’s standpoint. Since the price level set in the IOR was subject to a founder type HD process this meant that a founder type HD process was also relevant to IOR performance dimensions 13 and 14.

A shorthand description of the in/stability impact on IOR dimensions of historical dependence processes at IOR level – HD(IOR) – is expression (b) below:

$$I/S(IOR) = f[HD(IOR), \dots] \quad (b)$$

Since ultimately the continuation of HD processes in specific dimensions of the IOR was also dependent on MU’s resource dependency in the IOR and since the latter was partly a function of the HD processes at M_G level, for a statement of the relationship between impacts on in/stability in the IOR *over time*, i.e. $I/S(IOR)^T$ where T is the selected time period, and historical dependence processes and resource dependence, expressions (a) and (b) above need to be combined to get expression (c) below:

$$I/S(IOR)^T = f[\{RD(IOR) * HD(M_G)\}, HD(IOR), \dots] \quad (c)$$

6.6 IOR Instability and Threatened Instability 1995 – 2013

Explanations of in/stability in the IOR have been argued in the previous five sections of this Chapter. The focus of these explanations has been on stability, instability, and threatened instability in dimensions of the IOR examined in consecutive sub-periods of the reference period. Focussing on threatened instability and instability in the IOR, the aim of this final (sixth) section of the Chapter is to draw together these explanations and draw a conclusion about the instability (‘U’) and threatened instability (‘TRI’) in the IOR over the reference period as a whole.

This section is structured in three sub-sections:

1. Summary and analysis of explanations of instability and threatened instability impacts on IOR dimensions during the reference period. The number of these impacts and the components of the IOR in which these impacts occurred are analysed along with the explanations associated with them and conclusions drawn about how IOR instability and threatened instability came about.
2. Overall explanation of IOR instability and threatened instability during the reference period. The different explanations of IOR instability and threatened instability are considered and an overall explanation of IOR instability and threatened instability which features each of these explanations is suggested.
3. Overall Conclusion. In this sub-section an overall conclusion is stated about instability and threatened instability in the IOR over the reference period.

6.6.1 Summary and Analysis of Explanations of Instability and Threatened Instability on IOR Dimensions 1995-2013

These explanations are summarised in Table 21 below.

Caption to Table 21

- A summary of 'key events' and of the explanations associated with unstable ('U') and threatened instability ('TRI') impacts on IOR dimensions are presented in table 21.
- Key events, the year/s in which these occurred, and the initiators of these events are shown in columns 1-3 of the table. Some events were repeated, i.e. they occurred in more than one year. Events are grouped into the relevant components of the IOR.
- Further information on each key event is provided in the Comments & Sources of Evidence column of the Table (column 6).
- There were 15 types of key events which occurred altogether 25 times during the reference period and which were associated with 'U' and 'TRI' impacts on dimensions of the IOR
- There were 3 explanations ('A', 'B', and 'C') associated with the 'U' and 'TRI' impacts on the IOR dimensions. These explanations are presented in full notation in the Table – further information about the notation of each explanation is provided in the narrative. These explanations are set out in column 5 of the Table alongside the key events with which they were directly associated.

Table 21: Summary of Explanations of Instability & Threatened Instability on IOR Dimensions 1995 - 2013					
Year	IOR Events Description	Initiator(s) of Event	IOR Dimensions	Explanations of IOR Instability Impact:	Comments & Sources of Evidence
CONTRACTS			RD = Resource Dependence; HD = Historical Dependence; In/effectiveness = Ineffectiveness or Effectiveness		
2005	Expiry of 2000 - 2005 Contract; Interim Contract	GM	1-4; 6	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	Interim contract offered by GM pending NSC finalisation. Source: Archive 34.
2006	Interim Contract	GM	1-4; 6	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	Interim contract offered by GM, pending GM restructuring. Source: Archive 35.
2007	Interim Contract	GM	1-4; 6	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	New GM rejects NSC. Interim contract offered by GM pending GM proposed alternative to NSC. Source: Archive 36.
2008	LEC1 (Power Game 1)	GM	2-4; 6	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	LEC1 is core project of GM (VFM) _{MAX} ECR strategy. Sources: NHS London (2007); Archive 37, 86
2012	LEC2 (Power Game 4)	GM	1-4; 6; (11, 10)	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	Clauses in LEC2 potentially affecting future stability impacts on dimensions 11 & 10. Source: Archive 38.
OUTPUTS & PERFORMANCE					
1997, 1998, 2000	Annual Output Quantities Demand	GM	7	NHS(Demand Growth)	GM & MU collaborate to manage exceptional demand growth. Source: Archive 9.
2009	Annual Output Quantities Supply/Demand	MU	7, 14	NHS(Placement Capacity Constraint)	MU volunteer supply reduction. GM and MU collaborate to smooth GM output demand over 2 years. Source: Archive 46.
2003, 2004, 2006-2012	Trend Output Quantities Demand	GM	8, 14	[NHS(Demand Decline), HD(IOR)]	In 2006 GM lifts ring-fencing of MPET budget to reallocate education resources to plug deficits in NHS service budgets. Continuation of demand decline due to (i) NHS budget constraints (ii) NHS EDAs from 2010. Sources: Archives 59, 60, 67, 69,
PRICE & PERFORMANCE					
1995	Tender Negotiations	GM/MU	12; 10; 14 (9; 11)	$[(RD(IOR) * (Ineffectiveness of MU Negotiation Strategy)), HD(IOR)]$	MU under-priced tender at least partly due to mistakes in cost estimates. Source: Archive 27.
1996	Contract Price Negotiations	MU	12; 10; 14	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	Negotiations initiated by MU in attempt to rectify mistakes in 1995 negotiations. MU failed to achieve any of its objectives. Source: Archive 27.
2003	Post-registration Price Negotiations	MU	12	$[(RD(IOR) * (Effectiveness of MU Negotiation Strategy)), HD(IOR)]$	Balance of power in IOR different for post-registration activity. GM found means to accommodate concessions it made in price by subsequently making reductions in its output quantities demand. Sources: Archives 9, 146.
2005	BMP Implementation Delay	GM	12; 10; 14	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	GM decides unilaterally to delay BMP implementation on grounds of 'affordability'. MU protests but to no avail. Source: Archive 70.
2006	BMP Implementation Delay	GM	12; 10; 14	$[(RD(IOR) * HD(M_G)), HD(IOR)]$	Ditto. Source: Archive 71.
2009	BMP Negotiations (Power Game 2)	GM	12; 10; 9; 14	$[(RD(IOR) * (Ineffectiveness of HE Negotiation Strategy)), HD(IOR)]$	Balance of power reflected fact that the BMP was being negotiated at national level between the buyers as a group of GMs represented by DH and selected GMs, and HEIs represented by CoDH/UUK. Sources: Archives 89 - 95.
2010	OBC Negotiations (Power Game 3)	GM	11; 14	$[(RD(IOR) * (Effectiveness of MU Lobbying & Strong HE Coalition)), HD(IOR)]$	The strength of the HE coalition was founded on the unanimity of the interests of the HEIs in the coalition and their perceptions of those interests. A key part of MU's management of the HE coalition was to educate the HEIs in the coalition in the perception of their interests. The strength of the coalition functioned to alter the balance of power between the GM and the HEIs (including MU) in their IORs in the M _G . Sources: Archives 117 - 128.

In Table 21: ‘**Events**’ in the IOR include all those events over the reference period which in their entirety led to all of the instability or threatened instability impacts on the dimensions of the IOR over the reference period i.e. the 114 stability impacts which are shown as either ‘U’ and ‘TRI’ in Table 3(i). Some events have also been included where although the eventual outcome of those events was a ‘stable’ stability impact there had been a significant threat that an unstable or threatened instability outcome could have been brought about instead. Each event is grouped according to the dimensions on which the ensuing stability impacts occurred. ‘**Year**’ and ‘**Initiator of Event**’ refers to when **Events** were initiated and the initiator(s)/s of those **Events**. ‘**IOR Dimensions**’ are the relevant dimensions of the IOR on which there was an instability or threatened instability impact. ‘**Comments and Sources of Evidence**’ consists of brief statements about the context of the **Events** and the sources of evidence of these. ‘**Explanations of IOR Instability Impacts**’ are the explanations of the instability (‘U’) and threatened instability (‘TRI’) impacts on the dimensions of the IOR which were presented in the previous sections of Chapter 6.

In Table 21 there are three explanations of ‘U’ and ‘TRI’ impacts:

- A. $\{[RD(IOR) * HD(M_G)], HD(IOR)\}$
- B. $\{[RD(IOR) * (In/effectiveness\ of\ Negotiation\ Strategy/Coalition)], HD(IOR)\}$
- C. $[NHS(Demand\ Growth/Demand\ Decline/Placement\ Capacity\ Constraint)]$

Explanation A was defined in the previous section. The constituent variables in this explanation are a combination of (i) power imbalance in the IOR, in favour of the GM, between MU and the GM (ii) historical dependence processes at M_G and IOR levels.

Explanation B is also a power explanation. In this explanation however, the events took place under conditions akin to bilateral monopoly. Under those conditions the relative power of the sides in the negotiation was unstable; the relative power of each side depended largely on the in/effectiveness of the power dependence responses of the negotiating parties.

In Explanation C, it was events exogenous to the M_G viz. changes in overall NHS resources and consequent demand for healthcare workforce education, which were decisive for impacts on IOR stability rather than the power balance between the buyer and supplier at IOR or M_G levels.

From inspection of Table 21, there were 25 IOR ‘**Events**’ associated with ‘U’ and ‘TRI’ impacts. The GM initiated 21 of those events, MU initiated 3 events, and jointly the GM and MU initiated one event. In most of the GM initiated events, the GM was responding to events which were exogenous to the M_G as well as exogenous to the IOR. However, the GM also initiated some of the IOR events on its own initiative: from 2007, all of the GM initiated events in the contracts and price components of the IOR were part of its VFM_{MAX} ECR strategy for IORs in the M_G .

A map of which of the explanations - A, B, and C - accounted for which of the ‘U’ and ‘TRI’ impacts on each of the IOR dimensions over the whole of the reference period is given in Table 22 below.

Caption to Table 22

- In the Table are shown the explanations, A, B, and C which were associated with each of the TRI and U impacts (colour coded orange and red respectively) on the IOR dimensions in each year of the reference period 1995-2013. The explanations are fully defined in Chapter 6. Example: on IOR dimension 10 (Basis of Price – FEC) explanation A was associated with each of the TRI

impacts on that dimension for the years 1996/97 to 2008/09. Explanation B was associated with the TRI impacts in the years 2009/10 to 2012/13.

- Question marks (?) in the Table show where there were insufficient data to determine an explanation – this was the situation on dimensions 9, 10, 12 and 14 for 1995/96 and on dimension 12 for 2009/10 and 2010/11. On IOR dimension 14 more than one explanation was associated with the TRI stability impacts for the years 2003/04 to 2012/13. This was because dimension 14 encompassed a range of sub-dimensions each of which potentially had different sources of instability associated with them and consequently, potentially different drivers of instability.
- On IOR dimension 11 (OBC Risk) explanation B was associated with stability of the IOR on that dimension being maintained for the years 2010/11 to 2012/13. Details of how this came about are given in Chapter 6 in the account of Power Game 3.
- By inspection it can be seen from the Table that explanation A accounted for the majority of the TRI and U stability impacts – particularly in the contracts and price components of the IOR. Explanation C accounted for most of the TRI impacts in the outputs component of the IOR.

TABLE 22: IOR TRI and U Impacts 1995-2013 - Map of Explanations A, B and C on IOR Dimensions																			
Key: Green cells = Stable; Amber cells = TRI; Red cells = Unstable; A = Explanation A; B = Explanation B; C = Explanation C; ? = Insufficient data for explanation																			
IOR Key Outcomes: COMPONENTS & Dimensions	Stability Impact over Time																		
	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	
CONTRACTS																			
1 Duration									A	A		A	A	A				A	A
2 Termination											A	A	A		A	A	A	A	A
3 Compliance - Information; Management & Review															A	A	A	A	A
4 Placement Responsibilities											A	A	A		A	A	A	A	A
OUTPUTS																			
5 Output Specification																			
6 Output Floors and Ceilings											A	A	A		A	A	A	A	A
7 Size of Short Run Variability of Output Quantities			C	C		C		C							C				
8 Trends in GM Demand for Output Quantities									C	C				C	C	C	C	C	C
PRICE																			
9 Basis of Price - Innovation	?	A	A	A	A	A	A	A	A	A		A	A	A	A				
10 Basis of Price - FEC	?	A	A	A	A	A	A	A	A	A		A	A	A	A	B	B	B	B
11 Basis of Price - OBC Risk																	B	B	B
12 Actual Price v Supplier's FEC	?	A	A	A	A	A	A	A	A	A	A	A	A	A	?	?			
PERFORMANCE																			
13 Performance (i)																			
14 Performance (ii)	?	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A, B, C	A, B, C	A, B, C	A, B, C

Explanations A and B were associated with 87 of the 114 'U' and 'TRI' impacts on dimensions in the contracts, price and performance components of the IOR. Explanation C was associated with the 14 'TRI' impacts on dimensions 7 and 8 in the outputs components of the IOR. On dimension 14 of the performance component of the IOR for the years 2006/07 to 2012/13, five TRI impacts were associated jointly with explanations A and C, and four TRI impacts were associated jointly with explanations A, B, and C. These were cases of over-determination.

In general, it was the exercise of power by the GM which was decisive for most of the 'U' and 'TRI' impacts in the IOR over the reference period: explanation A was associated with c. 75%, explanation B with a further c. 5%, and explanation C with c. 15% of the U and TRI impacts. There were insufficient data for an explanation to be offered for c. 5% of the 114 TRI impacts'.

- All of the 'TRI' impacts in the contracts component of the IOR were associated with explanation A.
- All of the 'U' and 'TRI' impacts in the price component of the IOR and most of the TRI impacts in the performance component of the IOR were associated either with explanation A or with explanation B in which the GM was a key player either formally or informally (Table 21: 1995 Tender Negotiations, 2009 BMP Negotiations).
- Although the 'TRI' impacts on dimensions in the outputs component of the IOR were associated with explanation C, the GM was still a key player in some of the relevant events. For example, in the years of exceptional NHS demand growth (1997, 1998, and 2000) the GM and MU were effective collaborators in avoiding IOR performance instability resulting from the sudden surges in demand. This was also the case in 2009 when the MU and the GM collaborated to smooth the effects of the NHS placement capacity shortfalls on a forced temporary large reduction in MU supply. The GM was also an important player both in 2006 and in 2011 in facilitating implementation of the policy decisions to lift the ring-fencing of the MPET budget and to focus the subsequent reductions in its demand onto non-medical education.

MU's power dependence responses in the IOR are summarised for each year of the reference period in Table 15. In general, MU's power dependence responses to 'U' and 'TRI' impacts varied in the components of the IOR as well as during the reference period. Until 2007/08, on dimensions in the contracts and price components MU after initially trying to negotiate with the GM on its own to prevent the instability and threatened instability impacts, eventually accepted the increased risks and cost burdens and to manage these either by cross- subsidisation from MU's non-NHS activities or/and by cost reductions and productivity improvements. From 2008/09, MU joined in coalitions with other suppliers in the M_G in attempts to prevent the 'U' and 'TRI' impacts. Again, when these attempts did not succeed MU managed the 'U' and 'TRI' impacts by a mix of cross-subsidisation, cost reduction and productivity improvements.

MU's power dependence responses on dimensions 7 and 8 in the outputs component of the IOR were different. On dimension 7 MU and the GM worked together to mitigate 'U' and 'TRI' impacts, mainly through the GM giving advance notice of output demand changes, and in the 2009 event by the GM agreeing to MU's request to smooth a temporary reduction in demand over 2 years. On dimension 8, MU's power dependence responses were mainly cost reduction. In 2006 MU established detailed cost control management processes in regard to its NHS activities and using these managed its costs on a month to month basis for the rest of the reference period.

Finding (4) : Instability and threatened instability in the IOR over the reference period were brought about mostly by the exercise of power by the GM and by the power dependence responses of MU. The exercise of power by the GM in the IOR consisted partly of responses to events exogenous to the M_G , especially to exogenous shocks to the M_G , which occurred during the latter part of the reference period (2005-2009). In the last 5 years of the reference period (2008-2013), the GM also exercised power on its own initiative to bring about changes in the IOR as well as in the M_G which were consequential for stability on dimensions in the IOR.

6.6.2 An Overall Explanation of IOR Instability and Threatened Instability 1995-2013

All three explanations argued above are applicable to 'U' and 'TRI' impacts on dimensions of the IOR which occurred in 2009: explanation A to the continuing TRI impacts on dimensions 2-4 and 6 arising from the 2008 LEC; explanation B to the TRI impacts on dimensions 12, 10 and 14 arising from the outcome of the 2009 BMP negotiations; and explanation C to the TRI impacts on dimensions 8 and 14 arising from the continuing trend of decline in NHS demand, and on dimensions 7 and 14 arising from the NHS placement capacity constraint. Thus, depending on the year of the reference period in which 'U' and 'TRI' impacts occurred, and also the dimensions of the IOR on which they occurred, any one or more of the explanations could be valid.

Even for 'U' or 'TRI' impacts on a given dimension in the same year, the three explanations are not necessarily mutually exclusive. For example, explanations B and C are relevant to the TRI impact on dimension 14 in 2009 – a case of 'over-determination'. Explanation C may also be related to either of the other two explanations (A and B) over time. For example, the lifting of the ring-fence of the MPET budget in 2005 which was a response to constraints on NHS budgets generally and which led to the start of a declining trend in output quantities demand from 2006 (explanation C in respect of stability impacts on dimension 8) also led to the GM exercising its M_G power to delay the implementation of the BMP both in 2005 and in 2006 (explanation A in respect of stability impacts on dimension 10).

However, excepting dimension 14 in the years 2009/10 to 2012/13, explanations A and B are mutually exclusive as explanations of stability impacts on the same dimension at a given point in time. In each of these explanations there are different underlying assumptions about the power imbalance between the GM and MU in the IOR. The differences in these assumptions reflect the different conditions under which the IOR existed in respect of price determination processes, viz. whether these conditions were those of M_G or those of bilateral monopoly. Thus in explanation A, conditions of M_G are assumed under which there is a power imbalance between the GM and MU (configuration 3 in Figure 1); in explanation B, conditions of bilateral monopoly are assumed under which there is an unstable power balance between the GM and the coalition of which MU was a part (configuration 9 in Figure 1). But over time explanations A and B can be related. For example, the outcome of power game 3 where explanation B was relevant was one of the factors which led to power game 4, in which explanation A was relevant to the outcome of that game and the consequent stability impacts.

In regard to dimension 14 in the years 2009/10 to 2012/13, at the same time that conditions of bilateral monopoly prevailed in relation to the price related sub-dimensions of this dimension, conditions of government monopsony prevailed in relation to the contract and output sub-dimensions. Hence, while explanation B was relevant to the TRI impacts on the price sub-dimension, explanation A was relevant to the contract sub-dimension and explanations A and C were relevant to the TRI impacts on the output sub-dimensions of dimension 14.

It seems reasonable to conclude that an overall explanation of the instability and threatened instability of the IOR over the reference period as a whole should incorporate all three of the explanations set out earlier. This overall explanation could be expressed as:

$$U/TRI(OR)^T = f [\text{Explanation A, Explanation B, Explanation C}]$$

where:

$U/TRI(ITOR)^T$ = The instability and threatened instability in dimensions of the IOR over the selected time period (T);

Explanation A = $\{[RD(ITOR) * HD(M_G)], HD(ITOR)\}$;

Explanation B = $\{[RD(ITOR) * (In/effectiveness\ of\ Negotiation\ Strategy/Coalition)], HD(ITOR)\}$;

Explanation C = $[NHS(Demand\ Growth/Demand\ Decline/Placement\ Capacity\ Constraint)]$.

6.6.3 Conclusion

It is concluded that instability and threatened instability in the IOR during the reference period were due mostly to a power imbalance in the IOR, in favour of the GM, between the GM and MU. The source of that power imbalance was a combination of:

- The resource dependency of MU on the IOR
- The conditions of government monopsony and bilateral monopoly under which the IOR existed.

MU's resource dependency was created at the outset of the IOR through the commitment by MU to the specialist dedicated resources entailed in its role in the IOR. In the first half of the reference period, this resource dependency increased as the IOR grew in size and relative importance to the financial operating position of MU while at the same time most of the conditions of government monopsony under which the IOR had been created also persisted.

In the second half of the reference period the IOR declined in size; however, from MU's standpoint the IOR still continued to be important to the financial operating position of MU so that MU's resource dependency on the IOR continued.

This Chapter is in four sections, 7.1 – 7.4. Section 7.1 is a brief summary of the overall approach, perspective, concepts and frameworks used in the inquiry. Sections 7.2–7.4 are summaries of the findings of the research. Section 7.4 is structured into the same time periods used in Chapter 6 for the interpretation of the IOR in/stability over time: 1995/96; 1996–2004; 2005–2007; and 2008–2013.

7.1 Approach, Perspective, Concepts and Frameworks

The overall approach used in the inquiry was an agent-centred historical institutionalism (Bell 2011): the contract-based IOR, which was the empirical focus of the inquiry, was defined as a micro-level institution (Hennart 2008) and situated within a macro-level institutional environment the conditions of which were mostly those of M_G (Blair and Harrison 2010, Barnett 2009, Stucke 2013). The perspective taken in the inquiry was a power perspective (Huxham and Beech 2008, Lukes 2005, Morriss 2002, Foucault 1988 and 1983) which centred on the resource dependence of the organizations in the IOR (the GM and MU), specifically their mutual dependence and relative powers in the IOR (Emerson 1962, Casciaro and Piskorski 2005), and their exercise of those powers (Emerson 1962). A theoretical framework which integrated this power perspective with concepts of historical dependence (Page 2006) within an agent-centred HI approach (Bell 2011) was constructed (Chapter 2, Figure 2) and used for the development of explanations about the in/stability over time of the IOR.

An important part of the inquiry was the development of a concept of IOR in/stability over time. After a review of the IOR literature it was concluded there was no standard concept of IOR stability. To enable more nuanced understandings and explanations of IOR in/stability over time a multi-dimensional concept of IOR stability over time was developed; a grounded theory approach was used to do this (Glaser and Strauss 1967, Glaser 1978) and a concept of IOR performance stability from the standpoint of the organizations in the IOR was developed on 14 dimensions (Chapter 3, Tables 1 and 2, Exhibits 1–5). A conceptual framework based on the theoretical framework was also developed (the EEAPOC framework – Figure 3); this was to guide the development of ‘thick descriptions’ of how IOR stability impacts came about on each of the 14 dimensions. For the period 2008–2013, analysis of IOR in/stability impacts was framed in terms of power games. This part of the methodological procedure extended the analysis of the exercise of power in the IOR to include specific ‘moves’ and ‘tactics’ used by the GM and MU. This analysis was framed in terms of power games, and, arguably, could be seen as a practical application of Foucault’s ideas about the nature and ubiquity in social relationships of power struggles, power inequality and power asymmetry.

7.2 Origins, Initial Conditions and Persistence

Question set 1 of the inquiry was:

What were the origins and initial conditions of the NHS-HE inter-sector institutional arrangements and of the IOR? What were the conditions of these arrangements over the reference period?

The inter-sector institutional arrangements were found to be the outcome of a confluence of events in the late 1980s in the NHS and HE sectors, and in the development of professionally qualified non-medical occupations and their regulation. The relevant events are summarised in Tables 5(i) – 5(iii). These events were associated with perceptions of, and conclusions drawn by policy makers, professional body regulators and the receivers of healthcare regarding: (i) functional requirements in non-medical roles, especially nursing (ii) educational requirements for prospective registered

practitioners in non-medical roles, particularly in regard to requirements for practice which was 'evidence based' (iii) organizational requirements, initially in regard to the independence of the education providers from the day to day operational demands of the healthcare service and later in regard to opportunities for consolidation of apparent synergies between Colleges of Health and HEIs and (iv) IOR requirements.

In respect of IOR requirements: as part of a plan to introduce an internal market into the NHS the government had reviewed the arrangements which should be made for education and training of the NHS healthcare workforce. It was assumed in the government's review - WP10 (1989) - that the principle of 'contractual funding' should apply to the education provision and that there should be a purchaser-provider split. Both the principle and the way it was to be applied were compatible with the arrangements and objectives of the internal market about to be introduced into the NHS; the principle of contractual funding had already been introduced into the HE sector in the previous year (1988). Thus the NHS-HE inter-sector IORs that would eventually develop were also envisaged as based on market based arrangements to promote competition and (it was assumed) bring about greater efficiency in healthcare workforce education outputs.

In effect, WP10 functioned as a critical juncture which brought together the key preceding events in the NHS and HE sectors as well as the implementation of Project 2000 (the latter was the outcome of policy proposals which had been made by the Judge Committee in 1985 and by Project 2000 in 1986 concerning non-medical workforce education). The establishment of what became the M_G in non-medical education was the direct result of the decisions, based closely on WP10, which were taken shortly thereafter and given legislative effect under the NHS and Community Care Act 1990.

The IOR also originated as the outcome of a confluence of events. These events are summarised in Table 5(iv) and partly in Table 5(i). GMs were designated as the NHS organizations responsible for implementation of WP10, specifically the mergers of the Colleges of Health with HEIs, and the establishing of the IORs in the new M_G s. They did this initially through initiating and management of competitive tendering processes. After an initially failed competitive bid for Barnet College, MU eventually negotiated with the relevant GM a merger between MU and NLCHS.

The initial conditions of the NHS-HE inter-sector arrangements in which the IOR was established were found in the inquiry to satisfy all of the conditions of M_G . It was also found that the IOR continued to exist mostly under those conditions for the reference period. Some of the rules of the IOR changed during the period, specifically in respect of price determination so that from 2007 on dimensions of price the IOR existed under conditions of bilateral monopoly. However, from 2011 these conditions of bilateral monopoly began to be contested by the GM and in 2012 the GM was able to finalise new IOR contracts with all of its suppliers in the M_G in which the suppliers (including MU) agreed in respect of price determination in the IORs an intention to negotiate with the GM a move away from the conditions of bilateral monopoly to conditions of M_G (power game 4 outcome).

Finding (1): The IOR investigated in the inquiry originated under conditions of M_G and continued to exist mostly under those conditions for the whole of the reference period.

7.3 IOR In/stability over Time, Performance and Stability Risk

Question 2 of the inquiry was:

What were the IOR key outcomes and consequences for IOR in/stability over the reference period in each of the main components of the IOR, viz. contracts, outputs, price and performance?

The findings of the inquiry about the in/stability impacts on the IOR for each year of the reference period and for each dimension of the IOR are summarised in Table 3(i); analyses of these impacts are summarised in Tables 9 and 10. From MU's standpoint the IOR was 'threatening to enter a range of instability' throughout the reference period. MU achieved some of its objectives: IOR dimensions 5 and 13 were stable throughout the reference period from which it can be inferred that MU achieved its objectives on output quality. For a part of the reference period MU also achieved (i) its output quantities objectives (IOR dimension 8) whether for growth in outputs (1995/96-2002/03) or at least broadly to maintain output levels (2005/06) (ii) its financial objectives (IOR dimension 12) for neutral or positive FEC (2011/12-2012/13) (iii) its contracts objectives (IOR dimensions 1-4 and 6) especially for the period 1995/96 – 2003/04.

However, analysis of IOR stability over time from MU's standpoint showed that this reduced over the reference period (Tables 9 and 10). Over the period 1995/96 to 2004/05 the IOR was stable on most of its dimensions. Then from 2005/06 with the first of the one year interim contracts the IOR was stable on less than half of its dimensions. This situation continued to the end of the reference period even after the IOR pre-registration contract once again became a 5 year contract in 2008/09. From MU's standpoint the reduction in IOR stability over time occurred in risk dimensions 1 – 11. In 1995/96, the IOR was stable on 9 of these dimensions; in 2012/13 at the end of the reference period the IOR was stable on only 4 of these dimensions. The reduction of IOR stability in these dimensions had occurred in the contracts and output components of the IOR.

Finding (2) : The IOR tended to become less stable over time from the standpoint of the supplier (MU); reductions in IOR stability occurred in dimensions of risk relating to the future performance of the IOR.

As reflected in the stability impacts on IOR dimension 13, apart from its abortive attempt in 2010 to introduce OBC (on a programme completion basis) the GM achieved all of its IOR performance objectives over the reference period including contract compliance by MU, outputs quality and quantities 'delivered' by MU, and VFM.

Finding (3) : From the standpoint of the GM, IOR performance stability was maintained throughout the reference period. This suggests that from the GM's standpoint, IOR performance stability can coexist with a reduction, from the supplier's standpoint, in IOR stability on dimensions of risk.

7.4 Events, Responses, Historical Dependencies and IOR Stability Impacts

Question set 3 of the inquiry was:

3. How did in/stability over time in the IOR come about? Specifically, how were IOR relevant events, both exogenous and endogenous to the IOR responded to by the organizations in the IOR and what were the impacts of these events on the in/stability over time of the IOR?

The IOR relevant events are summarised in Tables 5(i) – 5(iv), 4(i), 4(ii), 11 - 13. The power dependence responses made by the GM and MU to those events and the consequent stability impacts on the IOR are summarised in Table 15. Details of specific responses ('moves') made by the GM and MU as well as by other relevant actors during the period 2008-2013 are summarised in Tables 17-20; the contexts and frames of the power games in which those moves were made are summarised in Table 16. The types of historical dependencies in the IOR relevant to the stability impacts at IOR dimension level are summarised for each year of the reference period in Table 15.

The following narrative summary is structured into the same time periods used in Chapter 6 for the interpretation of the IOR in/stability over time: (i) 1995/96 (ii) 1996-2004 (iii) 2005-2007 (iv) 2008-2013. These sections are followed by a short concluding section, section (v), in which a summary is given of the overall finding in the inquiry in answer to question set 3 of the inquiry.

7.4.1 1995/96

The IOR relevant events for the year 1995/96 are summarised in Tables 5(i)-5(iv). IOR stability impact assessments for 1995/96 are summarised in Table 5(v).

As shown in Table 5(v) the IOR was stable on 10 of its dimensions in 1995/96. Instability or a threatened instability was in price related dimensions – this included the threatened instability on dimension 14 which was due entirely to the shortfall of price against MU's FEC (dimension 12). How the IOR stability impacts in 1995/96 came about was mainly as an outcome of the NLCHS/MU merger negotiations between the GM and MU in late 1994 which established the IOR. However, other events preceding those negotiations functioned to determine the contractual form of the IOR and also many of the terms of the IOR contract finally agreed by the GM and MU. Under the 1990 NHS and Community Care Act the GM was charged with the implementation of WP10 by establishing contract-based IORs through a competitive tendering process. By the time of the GM – MU negotiations in 1994, that process had already been concluded and a contract template for future IORs in the M_G established. It is also likely that many of the terms of the 1995 IOR contract were also determined by the preceding competitive tendering process and that these largely accounted for the stability impacts in 1995/96 on IOR dimensions 1-9 and 11.

The 1994 GM – MU negotiations were crucial however, for the stability impact on IOR dimension 12 and consequently also on IOR dimensions 10 and 14. MU substantially under-priced its IOR offer to the GM. This had been brought about partly because of mistakes which MU had made in costing its offer for NLCHS. The size of this pricing shortfall was perhaps compounded by MU also deciding to offer a 'market entry price', i.e. a price which the GM would almost certainly accept and thereby help to ensure MU's entry to the NHS education market.

7.4.2 1996 – 2004

The IOR relevant events for the period 1996-2004 are summarised in Table 11. The power dependence responses made by the GM and MU to those events and the consequent stability impacts on the IOR are summarised in Table 14(i).

As shown in Table 11, except for dimensions 1, 7 and 8 the stability impacts on all of the IOR dimensions remained the same during the period 1996 – 2004. How these stability impacts came about was due to a number of factors and events, the relevance of which varied depending on the particular IOR dimension affected:

- IOR dimensions 1-4, 6, 9 and 11: The duration of the IOR contracts and their specified terms and conditions. The duration of the IOR contracts in the period 1996-2006 was either an annually rolling 3 year contract or in the case of the 2000 pre-registration contract, a fixed 5 years duration. Neither the GM nor MU sought any changes to the terms and conditions of these contracts, so that the stability impacts on these dimensions continued mostly to be the same over the period.
- IOR dimension 5: The review of Project 2000. The main outcome of the review was to establish a new specification for the pre-registration outputs in the IOR. It was MU's effective compliance with these new requirements which brought about a continued stable impact on this dimension of the IOR.

- IOR dimensions 7, 8: Commencing in 1997, there was a substantial growth in the resources allocated by government to the NHS. This growth was reflected in the objectives of the NHS Plan 2000 and sanctioned in the Health and Social Care Act 2000. There was a substantial growth in the NMET and MPET budgets during the period which fed through to the GM's demand for output quantities in all IORs in the M_G , including the IOR with MU.
- IOR dimension 10: A change in the basis on which price was determined. In 1996 the IOR contract price for the education provision was on a unit price basis. The unit prices were based on the 1995 contract price.
- IOR dimensions 12 and 14: The outcome of the 1996 negotiations on price between the GM and MU was to set the unit price based at a level relative to the 1995 price which was different only in regard to a standard cost inflation factor used for the NHS. This had the effect that the disadvantageous outcome to MU of the 1995 negotiations was replicated in 1996 and became locked in for the subsequent years of the period.

The power dependence responses of the GM and MU remained the same over the period 1996 – 2004 (see Table 14(i)). The GM continued its extraction of rents from the IOR while MU continued to cross-subsidise the IOR from its other activities and/or from increasing the indebtedness of the University. The latter point was particularly the case for the last 5 years of the period, 2000/01 to 2004/05. During that period MU's overall operating position declined sharply, from an operating surplus to turnover of c. 3.1% in 1995/96 to an operating deficit to turnover of c. (8.7%) in 2004/05.⁴⁴³ This deterioration in MU's operating performance combined with the volume growth in the IOR since its inception – c. 19% growth in volume terms between 1995/96 and 2004/05⁴⁴⁴ - meant that by the end of this period the resource criticality of the IOR to MU had increased substantially.

7.4.3 2005 – 2007

The IOR relevant events for the period 2005 – 2007 are summarised in Table 12. The power dependence responses made by the GM and MU to those events and the consequent stability impacts on the IOR are summarised in Table 14(ii).

As shown in Table 12, in this period the stability impacts on most of the IOR dimensions was either a threatened instability or unstable; this contrasted with the previous period (1995-2004) during which the IOR had been stable on most of its dimensions. How these stability impacts came about was due mainly to the GM's power dependence responses to events which were exogenous to the IOR, viz.: (i) a restructuring of the GM in 2006 (ii) a 'financial crisis' in the NHS in 2005/06. During the last year of the period (2007), the GM also took some important decisions which ultimately were to have further impacts on the stability of the IOR.

- IOR dimensions 1, 2, 4, and 6: the restructuring of the GM in 2006 coincided with the expiry of MU's NHS contracts. The outgoing GM and the new GM in its first year offered a succession of 1 year 'interim contracts' to MU so as to provide time for implementation of the reorganization of the GM to take place ahead of new long term contracts with MU being arranged. Consequently this became a period of 'drift' in the IOR. The impact of these short term contracts was a threatened instability on dimensions 1 and 2. In regard to dimensions 4 and 6 the GM took the opportunity to omit clauses from the interim contracts

⁴⁴³ Source: MU Annual Reports and Accounts 1995/96 – 2004/05 – Archive 18.

⁴⁴⁴ Source: IOR Commissions Quantities and Prices 1995/96 – 2012/13 – Archive 9.

which had previously been included in MU's long term contracts about responsibilities of the GM for placement and for annual variations in the GM's outputs demand to be subject to output floors and ceilings; the effect of these omissions was a threatened instability on dimensions 4 and 6.

- IOR dimensions 3, 5, and 13: there were no changes in the interim contracts which affected the stability impacts these dimensions. There were no changes to the contract information and management compliance requirements (dimension 3); MU continued effectively to adapt its curriculum and education output to the changing requirements of the regulatory professional body (dimension 13), adequate notice of which continued to be the norm throughout the reference period (dimension 5).
- IOR dimensions 7, 8: In response to a 'financial crisis' in the NHS in 2005 the GM lifted the ring fencing on its designated education budget (MPET/NMET) and diverted monies from that budget to cover the deficits arising in the service budgets of the NHS Trusts in its area. The GM reduced its demand for education outputs which was never subsequently restored. The GM collaborated with MU so that the implementation of the reduction in the GMs demand was managed to allow MU sufficient time to adapt (IOR dimension 7). However, there was a negative impact on dimension 8 as the reduction in the GM's demand in 2006 was the start of what became a long term decline in the GM's outputs demand (dimension 8) which continued for the rest of the reference period. Further consequences were to establish a principle of 'affordability' from the GM's standpoint which was interpreted to allow the GM the freedom to prioritise the immediate demands of health service budgets over the longer term requirements for NHS workforce supply and development.
- IOR dimensions 10, 12 and 14: Another exogenous event which was important to the IOR was the introduction of a BMP for non-medical education programmes. In 2004, motivated partly by concerns that HEIs might not continue to respond to NHS requirements for non-medical education due to under-pricing of their provision relative to their FEC, and partly so as to strengthen NHS management control of VFM obtained from education outputs procured by the NHS GMs, the DH agreed to the introduction of a BMP. GMs throughout England were allowed some discretion by the DH regarding when the BMP was to be implemented for each of their areas. Using the principle of affordability from the GM's standpoint which had been established around that time (see above on dimensions 7 and 8), MU's GM made maximal use of the discretion it was given by the DH and refused MU's requests to implement the BMP in 2005 and in 2006, though the majority of other GMs in England had done so). When eventually the GM did implement the BMP two years after the first mooted date, it did on a phased basis only, as a result of which the full benefit of the BMP would not be received by MU (and the other HEIs in the M_G for a further two years, in 2009/10. As a result of all this the stability impacts on dimensions 10, and 14 during the period 2005-2007 continued to be a threatened instability and on dimension 12 continued to be unstable.
- IOR dimensions 1, 2, 4 – 6, 9 and 11: In 2007, at the same time as deciding to begin implementation of the BMP, the GM indicated to HEIs in the M_G , including MU that it would not implement the contract which was designed to be associated with the BMP – the NSC – and would instead propose a new contract. The one year interim contract offered to MU for 2007 was the same as the previous interim contracts excepting that in the 2007/08 contract there were clauses regarding a new CPM system which the GM intended to

implement (IOR dimension 3). As a result the stability impacts on dimensions 1, 2, 4 – 6, 9 and 11 continued to be the same as they were in 2006/07.

In comparison with the previous period, the range of power dependence responses of the GM and MU increased during 2005-2007. The GM continued to extract rents from the IOR and MU continued to cross-subsidise the IOR. In this period the GM also exercised discretion on BMP implementation and changed the rules of the IOR through the interim contracts on several of the IOR dimensions (1-2, 4 and 6). In response MU accepted the increased risk and burdens in the IOR on those dimensions, initiated an internal cost reduction programme, and a capacity improvement programme with its placement providers. MU also supported the CoDH in its lobbying activity in regard to the lifting of the ring fencing by the GMs of their MPET/NMET budgets.

7.4.4 2008 – 2013

The IOR relevant events for the period 2008-2013 are summarised in Table 13. The power dependence responses made by the GM and MU to those events and the consequent stability impacts on the IOR are summarised in Table 14(iii).

As shown in Table 13, in this period the stability impacts on most of the IOR dimensions was a threatened instability. In overall terms the stability of the IOR was similar to what it had been in the previous period; there was also in both periods a similar pattern of stability impacts on the performance and outputs components of the IOR. At the start of the period 2008-2013 the pattern of stability on the contracts and price component dimensions was also similar to the previous period. However, by 2013 the contracts component had become relatively less stable with a threatened instability on all of its dimensions, while the price component had apparently become less unstable on two of its dimensions.

As in the previous period, 2005-2007, events exogenous to the IOR were important to how the stability impacts in the period 2008-2013 came about. One of these events was the restructuring of the GMs in 2006: whereas in the period 2005-2007 a consequence of this event had been to introduce a period of drift in the IOR, in 2008 a further consequence started to become apparent, one which was to have an enduring impact on the stability of the IOR. The restructured GM of 2006 was a pan-London GM where previously there had been five GMs. Because of this larger geographic area the new GM had a much larger overall education budget than previous GMs. Whether because of greater resources to manage that budget, or/and because the budget was sufficiently large for the GM to be held relatively more accountable for the VFM obtained from the eventual allocations of that budget, or/and because the GM had an immediate problem of streamlining the management of what previously been five different management organizations in London, or because of all of those factors, in 2007 the GM initiated a strategic review of the M_G. The outcome of that review was a plan by the GM to introduce a new 'Education Commissioning Regime' (ECR) for the M_G. The ECR was predicated on the principles of 'World Class Commissioning' which were in turn similar to the rationale that had underpinned the introduction of the internal market in the NHS in the 1990s. These principles were encapsulated by the GM in the formulation of its overall aim for the ECR, which became expressed in VFM terms as the maximisation of education outcomes per £ spent.

The ECR was developed by the GM into a set of 4 connected projects which included a new 'London Education Contract' (LEC) for the IORs in the M_G, a new contract and performance management (CPM) system, which eventually evolved to become a 'quality and contract performance management (QCPM) system', a new planning system which explicitly integrated NHS workforce planning with education commissioning, and a management of the education supplier landscape.

Other events exogenous to the IOR which were important to how the IOR stability impacts in the period 2008-2013 came about included (i) the global financial crisis of 2007/08, as an eventual consequence of which the 'Nicholson challenge' for annual savings of £15bn - £20bn on NHS budgets to be made by 2015 was to have an impact from 2010/11 on all NHS budgets including the MPET allocation (ii) a review of the BMP in 2007/08 and the outcome of the subsequent national negotiations on the recommendations made in that review and (iii) the financial performance of MU overall, which continued an improvement in that performance which had commenced in 2006/07 and which from 2011/12 reflected relatively substantial operating surpluses being made by MU.

All of these events (including the ECR projects) were played out in the IOR during the period 2008 - 2013 in a series of four power games initiated by the GM. Three of these power games (games 1-3) were zero sum games; the fourth power game was a zero sum game in most respects. In all of these games there was conflict between the aims and objectives of the GM and those of its suppliers (including MU). A summary description of each game - the players and their objectives, the stakes, and the level at which it was played - is given in Table 16. Details of the moves in each game are given in Tables 17 – 20. Summaries of what each power game was about are now given. This is followed by a summary of the overall outcomes of the games.

Power Game 1 – IOR dimensions 1-4, and 6: power game 1 was about what the rules of the IOR should be on dimensions 1-4, and 6. The objectives of the two sides - the GM on one side and the members of the LDHG including MU on the other - on these dimensions were incompatible.⁴⁴⁵ Differences also existed between the two sides in regard to IOR dimension 10; however, there was some ambiguity at the time about these differences, the significance of which was not to become apparent until this power game had been concluded and another power game took place in the following year (power game 2 in 2009).⁴⁴⁶

Power Game 2 – IOR dimensions 12, 10, 9: although ostensibly about the actual level of the BMP/unit price (IOR dimension 12) power game 2 was also about the principles underpinning the BMP (IOR dimension 10), the basis of price in relation to innovation (IOR dimension 9) and the integrity of the agreements reached nationally on price between the DH and the representatives of the HEIs (UUK and CoDH).⁴⁴⁷

Power Game 3 – IOR dimension 11: this power game was about an attempt by the GM to transfer risk in its IORs in the M_G (including the IOR with MU) to its suppliers, specifically the financial risks to the organizations in the IOR associated with student attrition (IOR dimension 11). The proposal on OBC put forward by the GM in May/July 2010 (moves M1, M2, and M4 in Table 19) was for an OBC defined on a programme completion basis. In effect, this meant the GM was seeking to change the basis of price in its IORs from a 'months completed' basis to a '3 year programme completed' basis.⁴⁴⁸

Power Game 4 – IOR dimensions 8, 7, 11, 10, and 3: this game was initially about the implementation of a relatively substantial reduction in the GM's output quantities demand and a reallocation of the reduced demand between its suppliers with the possibility that arrangements with some of the existing suppliers were terminated and some new suppliers appointed. As shown in

⁴⁴⁵ See Table 16 for the objectives of the players in this game and the sources of evidence for those objectives.

⁴⁴⁶ See Table 16 for the relevant objectives of the players on IOR *dimension* 10 in power games 1 and 2, for the differences between those objectives and the sources of evidence for those objectives.

⁴⁴⁷ See Table 16 for the objectives of the players in this game and the sources of evidence for those objectives.

⁴⁴⁸ See Table 16 for the objectives of the players in this game and the sources of evidence for those objectives.

Table 16, the GM's objective was to accomplish these reductions and reallocations as quickly as possible (IOR dimensions 8 and 7); the HEIs (including MU) wanted implementation of the demand adjustments to be delayed by one year.⁴⁴⁹ Some of the HEIs (including MU) hoped that other NHS reorganizations including an expected restructuring of the GM might eventually lead to the dropping of the reallocation part of the demand adjustment and thereby the threat to their future security of supply in the M_G would be reduced.

However, once play in it was under way, power game 4 was also used by the GM as a means of accomplishing additional objectives: (i) to get a negotiation on OBC (IOR dimension 11) back on to the agenda for all IORs in the M_G (ii) simultaneously with the OBC objective to move away from the BMP altogether (IOR dimension 10) and in doing that to take the process of price determination away from the national level and bring it back into the M_G where the GM would be the sole negotiator for the buying side (iii) to increase the GM's control and surveillance of 'quality' processes in all IORs in the M_G (IOR dimension 3).

Overall outcomes of power games 1 - 4: the outcomes in power games 1, 2, and 4 were: (i) the GM achieved all of its objectives (ii) the suppliers, including MU, did not achieve any of their objectives. The outcome in power game 3 was different: MU and its coalition partners achieved their objective of preventing the implementation of OBC as a new basis of price. However, while the GM did not achieve its objective in this game, the setback (from the GM's standpoint) was perhaps only temporary: later, in power game 4 the GM exercised its discretion in initiating a tendering process, as part of which it formulated a new prospective contract for its IORs. One of the terms of that contract, which would become operative once the successful bidders had been formally appointed was that OBC was formally put on an agenda for future negotiation in the M_G .

The consequent impacts of the outcomes of the power games on the in/stability of the IOR are summarised in Table 13. The years and relevant dimensions on which the stability impacts occurred for each power game were:

- Power Game 1: 2008/09; dimensions 1-4, and 6
- Power Game 2: 2009/10; dimensions 12, 10 and 9
- Power Game 3: 2010/11; dimension 11
- Power Game 4: 2012/13; dimensions 8, 7, 11, 10 and 3

Power Games Moves and Strategies: How the stability impacts came about in the power games can be understood in terms of the moves made by the principal players in each of the games and the underlying strategies they employed. The moves made in the games are summarised in tables 17 – 20. The strategies used by the players were:

The strategy of the GM in power game 1 was initially to consult with HEIs in the M_G on a collective basis.⁴⁵⁰ The strategy of the HEIs was collectively through the LDHG to make counter-proposals to the GM. In response the strategy of the GM was to conclude the game with a series of individual meetings with its suppliers, including MU and thereby to use its monopsony power to get the HEIs individually to accept its proposals.⁴⁵¹ Thus, initially this game was played under conditions of bilateral monopoly; however, later on the game was played under conditions of M_G and the outcomes of the game were determined under those conditions.

⁴⁴⁹ See Table 16 for the objectives of the players in this game and the sources of evidence for those objectives.

⁴⁵⁰ See Table 17, moves 1 – 5.

⁴⁵¹ See Table 17, moves 6 – 7, and 10.

Power game 2 was played under conditions of bilateral monopoly at a national level. The strategy of the GM in this game 2 was to exploit ambiguities in the rules of the NHS-HE inter-sector arrangements and in doing so to veto an agreement on price which had previously been reached in national level negotiations. In response the HEI representatives lobbied HENSE and the DH by disputing the substantive basis on which the GM exercised its veto. However, at the same time the HEI representatives also agreed to the DH request for new negotiations to take place.

The strategy of the GM in power game 3 was to conduct a consultation process with the HEIs collectively in the M_G and in that process to advocate its OBC proposals. Later, at a decisive stage in the process the GM proposed that OBC be piloted in HEIs (see Table 19, move M10). In response to the initial moves in this game by the GM, MU initiated and led a campaign of opposition to the introduction of OBC using a dual strategy of coalition with other LDHG members and intensive focussed lobbying both at M_G and HE-NHS inter-sector levels. A key part of MU's strategy was to educate/inform LDHG members and influencers at NHS-HE inter-sector level about OBC (as defined by the GM) and its implications.⁴⁵² In effect this game was also played under conditions of bilateral monopoly.

The strategy of the GM in power game 4 was (i) to exercise the discretion it had under the LEC to terminate its IOR contracts in the M_G ⁴⁵³ (ii) to initiate and complete a process of tendering in the M_G (iii) to use the tendering process as a means by which the GM negotiations with its prospective suppliers would be held with each of them individually. The HEI's strategy was collectively to try to persuade the GM to delay the execution of its plan; the HEIs also lobbied the DH and eventually also a member of the HENSE group (see Table 20, moves M5, M6 and M10). Ultimately however the HEI coalition was unsuccessful in its objectives and the outcomes of the game were determined under conditions of M_G .

7.4.5 How did in/stability over time in the IOR come about?

In regard to the above question (research question 3) the following was the key finding of the inquiry:

Finding (4) : Instability and threatened instability in the IOR during the reference period were brought about mostly by the exercise of power by the GM and by the power dependence responses of MU. The exercise of power by the GM in the IOR consisted partly of responses to events exogenous to the M_G , especially to exogenous shocks to the M_G , which occurred during the latter half of the reference period (2005-2009). In the last 5 years of the reference period (2008-2013), the GM also exercised power on its own initiative to bring about changes in the IOR as well as in the M_G which were consequential for the stability of the IOR.

⁴⁵² See Table 19, moves M5, M9, M13, and M15.

⁴⁵³ Source: MU NHS London Pre-registration Education Contract (LEC) 2008/09-2012/13 – Archive 37

This Chapter is in three sections. In the first section a summary is given of the conclusions drawn in the inquiry about why the in/stabilities found on the dimensions of the IOR came about. The second section consists of a statement of the thesis developed in this dissertation about why the instability and threatened instability in the IOR came about. In the third section, a short story is told of the journey in government monopsony of the IOR over the reference period.

8.1 IOR In/stability 1995 – 2013

The overall question of the inquiry was:

Why did in/stability over time in the IOR come about?

The conclusions drawn in response to this question about the in/stability on the dimensions of the IOR are summarised below. The summary is structured into same four time periods used in Chapter 6 (1995/96; 1996-2004; 2005-2007; 2008-2013) and followed by an overall conclusion about instability and threatened instability in the IOR over the whole of the reference period. The summary Tables referred to in Chapter 7 are also relevant in this section, viz. Tables 5(i) – 5(iv), 4(i), 4(ii), 11 – 13, 15 and 16-20.

8.1.1 1995/96

Why the IOR stability impacts in 1995/96 came about was due to a combination of factors:

- Stable impacts on dimensions of the IOR were associated with compatibility in some of the objectives of the GM and MU and a mutual dependence. An overriding objective of the GM was to implement WP10, initially through establishing IORs with HEIs; a key objective for MU was growth. Both of these objectives could be met provided an MU/NLCHS merger was negotiated successfully and an IOR established between the GM and MU.
- Historical legacies, mainly from a competitive tendering process which had established terms and conditions in other IORs in the M_G. These initial conditions were consequential for stability impacts on IOR dimensions 1-9 and 11.
- Instability and threatened instability impacts on dimensions 12 and 10 of the IOR were associated with a conflict in the objectives of the GM and MU on pricing. Although it can be argued that objectively there was no power imbalance between the GM and MU before the IOR was established, it is possible that MU top management perceived that there was a power imbalance in favour of the GM: MU was anxious to develop a significant presence in the NHS education market and the IOR would be a means to do that; however the GM may have had in addition to MU, other HEI options for the NLCHS merger.

An alternative explanation is that the stability impact on dimension 12 and consequentially also on dimensions 10, 13 and 14, may have been a random outcome of the 1994/95 contract negotiations between the GM and MU. Whatever the underlying explanation for these stability impacts, what the power dependence responses of the GM and MU on these dimensions amounted to was an extraction of rents in the IOR by the GM and a cross-subsidisation by MU of its NHS contracts from its non-NHS resources and income.

8.1.2 1996 – 2004

Why the IOR stability impacts over the period 1996 – 2004 came about was due to a range of factors:

- Stable impacts on dimensions of the IOR were associated with compatibility in some of the objectives of the GM and MU and a mutual dependence. This was particularly relevant to IOR dimensions 5, 13 and 14 where the objectives of the GM continued to include MU IOR performance compliance with its requirements on outputs quantities and quality. MU's objectives continued to include enhancing its reputation (which it could do through compliance with the GM's requirements on outputs). The substantial growth in the GM's demand for output quantities during the period also helped to reinforce the mutual dependence between the GM and MU on IOR dimensions 7 and 8.
- Instability and threatened instability impacts on dimensions of the IOR were associated with conflict in some of the objectives of the GM and MU and a power imbalance, in favour of the GM, between the GM and MU in the IOR. This was relevant to price dimensions of the IOR, particularly dimensions 12 and 10, and also to the IOR performance from MU's standpoint, dimension 14. Efficiency in procurement continued to be a key objective of the GM. From the GM's standpoint this meant a continued application of unit prices equivalent to those which had indirectly been established as part of the outcomes of the 1995/96 negotiated tender. MU's objective in the 1996 negotiations on price was to establish price on a basis which would cover MU's FEC. That MU failed to achieve its objective on price can be explained in terms of a combination of its resource dependence in the IOR and the relatively greater power of the GM in the M_G context of the IOR. In agreeing to the merger with NLCHS which established the IOR in 1995, MU had entered into relatively substantial new resource commitments of a specialised nature, i.e. resources which could not be deployed economically outside of the IOR. In effect, once MU had committed to the IOR it had also entered a M_G as a result of which a power imbalance between the GM and MU, in favour of the GM had been created. This power imbalance was potentially relevant to any areas in the IOR in which there were conflicts of objectives between the MU and the GM. The resource criticality of the IOR to MU grew further when in 1996 MU acquired a new site (at Archway) to be used almost entirely for its NHS contracts activities.
- The effect of historical dependencies in dimensions of the IOR: these were relevant to IOR dimensions 1-6, 9-12, and 14 of the IOR. As already noted neither the GM nor MU sought any changes during the period 1996 – 2004 on dimensions 1-9 and 11. Thus the lock-ins of historical dependence provided on these dimensions of the IOR within individual IOR contracts continued to apply over successive IOR contracts during the period. In regard to dimensions 12, 10, and 14 there were self reinforcing processes of historical dependence which operated in addition to and in combination with, the power imbalance between the GM and MU noted above. The annual recurrent budgets set for the GM took its previous year's expenditures as a baseline. Since the GM's expenditures in its IORs were mostly predicated on a unit price basis then beyond adjustments for inflation and volumes the 'unit of resource' in those IORs would in real terms remain approximately the same from year to year.

8.1.3 2005 – 2007

Why the IOR stability impacts over the period 2005 – 2007 came about was due to a range of factors which was similar to the previous period. However, the relevance of each of these factors across the IOR dimensions was different.

Compatibility in some of the objectives of the GM and MU and a mutual dependence: as in previous periods this factor was particularly relevant to IOR dimensions 5, 13 and 14 where the objectives of the GM continued to include MU IOR performance compliance with its requirements on outputs quantities and quality. MU's objectives continued to include enhancing its reputation (which it could do through compliance with the GM's requirements on outputs). Although the GM's demand for output quantities had reduced, the size of that reduction did not affect the mutual dependence which the GM and MU had on these dimensions of the IOR.

Conflict in some of the objectives of the GM and MU and a power imbalance, in favour of the GM, between the GM and MU in the IOR: as in the previous period 1996-2004, this factor was relevant to price dimensions of the IOR, particularly dimensions 12 and 10, and also to the IOR performance from MU's standpoint, dimension 14. The factor continued to be relevant for the same reasons: (i) the persistence of the conditions of M_G as the overarching context of the IOR meant that the power imbalance between the GM and MU, in favour of the GM, continued (ii) efficiency in procurement continued to be a key objective of the GM (iii) a unit price (or 'unit of resource') which would cover MU's FEC continued to be an objective of MU. The emphasis which MU placed on its FEC objective increased as a result of its sustainability review of its NHS contracts in 2006. MU's operating performance generally was also a factor: it was this which had prompted MU's sustainability review in the first place and it was also this factor which motivated MU top management in 2006/07 to initiate a major cost reduction programme on all of its activities including its NHS activities. The IOR continued to be resource critical for MU, even more so in a context where MU's overall survival was in the balance; in 2005/06 MU had sustained the largest operating deficit in its history, c. (£17.7m) or c. 13.5% of its income for that year.⁴⁵⁴ In its 2006 sustainability review MU estimated that the contribution from the IOR to its overheads was c. £5.6m with the potential for that to increase with the implementation of a cost reduction programme.⁴⁵⁵ Given all this the power imbalance in the IOR, in favour of the GM, which had existed throughout the previous period, had increased further by 2006. Given this, MU concluded that it had no viable option open to it other than to accept the GM's refusals in 2005 and again in 2006 to implement the BMP, and also to accept the GM's offers of interim contracts in 2005, 2006 and 2007.

The effect of historical dependencies (HDs) in the IOR: the impact of the interim contracts on HDs in the IOR was to change the relevance on several of the IOR dimensions. The lock-ins provided by the interim contracts was of short duration: this is reflected in Table 14 (ii) in the new type (FG) of the HDs compared with the previous period on dimensions 1, 2, 4, and 6. However, HDs continued to be the same on several of the other IOR dimensions: the GM and MU continued to be 'specification takers' of the requirements of the regulatory professional body output on output quality (IOR dimension 5); the arrangements under previous contracts in relation to contract compliance information and review continued (IOR dimension 3). On dimensions 9 and 11 the initial conditions of the IOR continued to apply – neither the GM nor MU sought changes on those dimensions. The founder HDs on dimensions 10 and 12 also continued to apply in 2005/06 and in 2006/07. With the

⁴⁵⁴ Sources: MU Annual Report and Accounts 2005/06; MU – Archive 19; MU Financial Statistics 1993/94-2012/13 – Archive 18

⁴⁵⁵ Source: MU NHS Contracts Financial Sustainability Assessment 2006 – Archive 19

GMs decision to implement the BMP, new founder HDs on these dimensions were created in 2007/08. However, on all of these price related dimensions 9-12 it was the power imbalance between the GM and MU which was the main factor which determined the stability impacts on those dimensions (along with MU's operating performance on dimension 12); the HD which was relevant to these dimensions was not the HDs created under the IOR contracts (though the latter were necessary). Rather, it was the HD of the conditions under which the IOR had existed from the time it was established, i.e. the conditions of M_G which was important since it was the conditions of M_G which was one of the two sources of the power imbalance in the IOR in favour of the GM.

8.1.4 2008 – 2013

Why the IOR stability impacts came about from each of the power games during this period can be explained as a combination of (i) the balance of power between the GM and the HEIs (including MU) and (ii) the strategies used by the players in the games, in particular the effectiveness of these strategies in changing the balance of power between the GM and the HEIs (including MU).

In power games 1 and 4 the strategies used allowed the GM eventually to negotiate with its suppliers (including MU) on an individual basis. Under those conditions the GM could exercise its M_G power in the negotiation processes in the games and take advantage of the resource criticality of the IORs to its suppliers (including MU).

In power games 2 and 3 the HEIs acted collectively throughout so that the conditions under which the games' negotiations took place were equivalent to those of bilateral monopoly. Under bilateral monopoly the relative power of the buyer and supplier is considered in micro-economic theory to be relatively equal but at the same time potentially highly dynamic and unstable (and, given the high level of mutual dependence of the buyer and supplier on each other, potentially equating in these games to configuration 9 in Figure 1) and consequently that the outcomes of zero sum games are indeterminate; decisive factors in the outcomes of power games under conditions of bilateral monopoly include the resilience and strength of coalition groups and the effectiveness of their negotiating strategies. *'In practice, the outcomes of bilateral monopoly depend on economic logic, on the relative power of (the buyer and supplier groups), on the skill and preparation of the negotiators and partly on luck'*.⁴⁵⁶ The negotiating strategy of the HEIs in power game 2 proved to be ineffective perhaps because in agreeing to new negotiations on the BMP, the HEI representatives had already conceded key outcomes of the game.

In power game 3 however, the HEIs led by MU quickly became well informed and strongly united in their resistance to the GM's OBC proposals. From MU's perspective, the stakes of the game were so high that termination of its IOR and exit from the M_G altogether was potentially a good option in the event that the GM proposals were implemented. In that context, the power balance between the GM and MU in their IOR was different from what it was in other contexts of the IOR and also uniquely different from what it had been in the history of the IOR up to that point: in power game 3 the GM could no longer rely on its standing as the GM in the M_G as an important source of its power since exit from the M_G had become a realistic option for MU to consider – the costs to MU of pursuing that option would still be high but those costs were likely to be lower even within a medium term horizon than the costs to MU from persevering with its IOR under conditions of OBC as defined by the GM i.e. on a programme completion basis. Consequently, when a different option to OBC became available to the GM to achieve its FSWT objectives, it terminated power game 3 and initiated what became power game 4.

⁴⁵⁶ Baumol, W. and Blinder, A. (2012), p. 435.

8.2 Thesis - Instability and Threatened Instability in the IOR 1995-2013

A summary of the explanations developed in this inquiry about the instability and threatened instability of the IOR over the reference period is given in Table 21. Three explanations – A, B, and C – were given which, over time, could be related to each other. A summary of which explanations – A, B, and C – accounted for which ‘U’ and ‘TRI’ impacts on each of the IOR dimensions over the whole of the reference period was given in Table 22. Two of these explanations, A and B, were power explanations: ‘explanation A’ was relevant to conditions of M_G ; this explanation accounted for c. 75% of the instances of instability and threatened instability in the IOR over the reference period. ‘Explanation B’ was relevant to conditions of bilateral monopoly; this explanation accounted for a further c. 5% of the instances of instability and threatened instability in the IOR over the reference period. Based on the analysis presented in Chapter 6 which led to these conclusions, the thesis developed in this dissertation is:

Instability and threatened instability in the IOR over the reference period were due mostly to a power imbalance in the IOR, in favour of the GM, between the GM and MU. The source of that power imbalance was a combination of:

- The resource dependency of MU on the IOR;
- The conditions of M_G and bilateral monopoly under which the IOR existed.

8.3 A Journey in Government Monopsony 1995 – 2013

The NHS-HE inter-sector arrangements for non-medical education were designed in 1989 by the authors of WP10 and enacted in the 1990 NHS and Community Care Act. The intention of government policy makers was to create a level playing field between the health service providers in the NHS so that an overall aim of ensuring a well functioning internal market in the NHS could be achieved; the plan to take education and training out of the quasi market for the NHS and establish a separate quasi market with centralised funding was a by-product of that aim. Contracts were to be established between education providers (which in effect became HEIs such as MU) and those with delegated responsibility to act as buyers for the NHS of non-medical education and training (which in effect became the GMs). By about the mid 1990s the arrangements had become fully implemented.

However, these arrangements had amounted to the creation of a M_G in non-medical education for the NHS professional workforce in England and thus it was under those conditions that the IOR between the GM and MU was established in 1995. The impact of those conditions on stability in the IOR soon became apparent when, in 1996, MU failed to achieve any of its objectives on contract price and accepted what became a long-term extraction of rents from the IOR by the GM. However, the IOR was stable on all of its non-price dimensions and this stability continued for several years. The period of 1997 to 2004 was a period of substantial growth in the NHS overall as well as in NHS education budgets. The dominant ethos in the NHS-HE inter-sector relations in non-medical education was one of ‘partnership’ and responsive collaboration. Due to this, MU was successful in achieving both its output growth as well as its output quality performance objectives in the IOR. The GM too, was successful in achieving its objectives which, after the M_G had become fully and successfully established by 1998, were to maintain the status quo on price and to secure compliance with its demands on output quantities and quality.

2005-2007 was a period of great turbulence in the environment of the IOR. Factors in this turbulence included a ‘financial crisis’ in the NHS in 2005 and a restructuring of the GM in 2006. As a result of these developments, the period 2005-2007 became a period of drift in the IOR. On many dimensions of the IOR which had previously been stable, a threatened instability became the norm. This was particularly the case on dimensions in the contract component of the IOR in which, during the period

2005-2007, the contracts in the IOR were successive one year 'interim contracts'. These developments in the IOR contracts were brought about by the exercise of power by the GM. The principal source of this power was the conditions of M_G under which the IOR existed. MU's resource commitment to the IOR was also important, and even more so than at the start of the IOR in 1995: MU had sustained substantial operating deficits over the years 2000/01-2005/06; these combined with the growth in the student FTE volume of the IOR, meant that MU had become very reliant on the contribution to its overheads which came from its NHS contract activities.

By 2008 the turbulence in the environment of the NHS which had characterised the previous 3 years had subsided – the financial affairs of the NHS were in relatively good order and the new GM had become established. However, in practically all respects the threatened instability in the IOR continued. The restructuring of the GMs in 2006 resulted in a new GM with responsibilities for a pan-London M_G . This M_G (in which MU was one of the suppliers) was far greater in scope than previous M_G s. Thus the non-medical education and training budget for that M_G , which was the consolidation of what previously had been 5 separate budgets, had greater visibility with those responsible, like the GM, for the management of NHS resources. At the same time as this was brought about, new initiatives were taken to improve buying ('commissioning') throughout the NHS. This was particularly evident in the WCC initiative which was launched in December 2007 and the FESC arrangements which had been launched a year earlier.

Against this background, the new pan-London GM with the support of external consultants, McKinsey and Company, reviewed education commissioning in the M_G . The outcome of that review, in December 2007, was a strategy for the GM to maximise VFM in education commissioning and a detailed implementation plan for that strategy.⁴⁵⁷ That strategy, which consisted in 4 related projects to bring about a new ECR for the M_G , had implications for stability impacts on all of the dimensions in the contracts and price components of the IOR. The implementation of that strategy was played out in a series of 4 power games (power games 1-4) over the period 2008-2012. These games were initiated by the GM and were mostly zero sum games. In only one of these power games did the GM fail to achieve its objectives (power game 3).

The 2007/08 world financial crisis, the subsequent 'Nicholson Challenge' in 2009 and the curtailment of NHS budgets in real terms (that is when the underlying and continuing growth in the demand for healthcare was taken into account) which began in 2010, functioned to add to the financial pressures on the GM during the last years of the reference period. The consequences of all this included an acceleration in the trend of decline in the GM's outputs demand which had commenced in 2006 and also partly prompted the GM to initiate power game 3.

Thus the instability and threatened instability in the IOR which had marked the period 2005-2007, continued in the period 2008-2013 and had also taken on a new meaning. Instead of being mostly the consequence of a response by the GM to turbulence in its environment, which over time could have positive as well as negative impacts on stability in the IOR, the instability and threatened instability in the IOR also resulted from a deliberate strategy of the GM to manage the M_G , using its power to extract as much benefit as it could from the IORs in the M_G .

Compared with 1995 when it was established, the IOR had by 2013 become a substantially riskier venture from the standpoint of MU. The instability and threatened instability had become deeply rooted and was sustained not only by the implementation of policies of austerity in the macro-economic environment but also by the GM's exercise of power on its own initiative to 'maximise' VFM in the ECR it had designed. Many of the seeds of that instability and threatened instability had been sown long before, in the 1989 White Paper, WP10.

⁴⁵⁷ Source: NHS London (2007).

9.0 Introduction

The second aim of the inquiry is dealt with in this Chapter. The overall research question here was:

5. How should conflict in principal-agent relationships such as in long term contract-based IORs, be managed so that sustainable outcomes from the standpoints of all relevant stakeholders are brought about?

Taking as given the context of the IOR over the reference period (including the origins and persistence of the M_G and its macro, NPM, context) the Chapter is structured into six sections: (i) Principal-Agent theory (PAT) is defined (ii) strengths and limitations of PAT are outlined (iii) taking account of the key outcomes of the M_G and the IOR over the reference period, a critique is made of the M_G approach to public sector management (iv) a brief update (to January 2016) is given on developments affecting the M_G since the end of the reference period (v) current substantive issues are summarised and recommendations for policy and management are made (vi) a short discussion about the recommendations made, in particular about whether the key assumptions underpinning the forecast stability outcomes are utopian or represent a political choice.

9.1 Principal-Agent Theory (PAT)

Principal-agent theory (PAT) is concerned with the relations between a principal (P) and an agent (A) *'who are engaged in cooperative behaviour but have different goals and differing attitudes towards risk'* (Eisenhardt 1989). In PAT: *'the unit of analysis'* is the contract between P and A; the *'focus'* is *'to determine the most efficient contract governing the principal-agent relationship'* (Eisenhardt 1989) given assumptions about:

- (i) People** are assumed to pursue their self-interests by trying to maximise their utility functions, have bounded rationality and be risk averse.
- (ii) Organizations** (as principals and agents) are assumed to have partial goal conflict and define effectiveness in terms of an efficiency criterion. Efficiency includes the efficient organization of information and the appropriate sharing of risk bearing costs.
- (iii) Information** is assumed to be asymmetric between principal and agent while at the same time to be purchasable as a commodity.⁴⁵⁸

Given an assumption that both P and A seek to maximise their individual utilities from their principal-agent relationship (PAR), then in PAT different goals become an issue particularly when it is *'difficult'* or relatively expensive for P to verify what A is doing. Without timely and appropriate information on the latter, P is exposed to opportunist behaviours by A such as *'shirking'*. Even if the risks inherent in a given PAR can be defined and agreed, differences in the respective attitudes of P and A toward those risks raises the issue of how the risks should be shared between them.

Thus, according to Eisenhardt (1989), *'the heart of agency theory is the goal conflict inherent when different individuals with different preferences engage in co-operative effort and the essential metaphor is that of the contract'*. Eisenhardt suggested that PAT and political (or power) models of organizations were similar in that *'both agency and political perspectives assume the pursuit of self-interest at the individual level and goal conflict at the organizational level. The difference is that in political models conflicts are resolved through bargaining, negotiation and coalitions – the power*

⁴⁵⁸ Eisenhardt (1989), p. 59

*mechanisms of political science. In agency theory they are resolved through the co-alignment of incentives – the price mechanism of economics*⁴⁵⁹. In the IOR investigated in the inquiry, conflicts between the GM and MU could arise on each of the 14 dimensions of the IOR. For example, from the standpoint of the GM the minimisation of risks on dimensions 1-7 and 9-12 would necessarily result in an increase in risk for MU; from the standpoint of MU, the converse applied. In regard to dimensions 13 and 14, to the extent that the risk preferences of MU and the GM differed then even on these dimensions there was a potential conflict between the organizations.

9.2 Strengths and Limitations of PAT

9.2.1 Strengths of PAT

Practical potential of PAT: Within this overall NPM context a key strength of PAT perceived by policy makers has been its potential for practical use to achieve objectives of efficiency in the public sector. PAT '*specifies a range of monitoring, information eliciting and performance appraisal techniques*' (Olssen & Peters 2005). These techniques are aimed at determining 'the best' structures and processes in PAR, particularly in regard to 'the best' form of contract between principal and agent, the 'best' way of motivating agents to perform well, and the 'best' way of specifying & monitoring contracts by principals to guard against agent opportunism.

Relevance of Risk, Bounded Rationality and Information: A further strength claimed for PAT has been its recognition of the relevance of risk, bounded rationality and the importance of information.

9.2.2 Limitations of PAT

Criticisms of PAT have mainly concerned (i) the substantive validity of PAT (ii) the ways in which PAT has been applied (iii) limitations on the attainment of 'efficiency' (iv) structuration impacts

(i) Substantive Validity: it has been argued that PAT does not adequately reflect the nature of the reality to which it has been applied. An important assumption in PAT concerns how PAR conflicts are resolved. According to Eisenhardt (1989), it is through the '*co-alignment of incentives*' that conflicts between a principal and an agent in a PAR are resolved and that this '*price mechanism of economics*' is different from '*the power mechanisms of political science*'.⁴⁶⁰ This implies that relative power and its exercise have no place in PAT; even if as Foucault suggested power is ubiquitous it would seem that power as part of an explanation of PAR outcomes is excluded in a PAT perspective. However in practice might not the price mechanism which brings about the 'co-alignment of incentives' also involve the operation of a power mechanism? For example, take the case where a contract between a principal and an agent was established by competitive tender and where no second stage negotiation was involved. Everything that needed to be specified was specified for the ultimate contract was completely in the tender. In such circumstances it is conceivable that an explicit rule specified price mechanism might operate automatically as part of an overall system of contract determination. But in reality different types of tender are possible, these being open, selective and by negotiation. 'Power mechanisms' are by definition associated with the latter two types of tender and sometimes open tenders have a second stage which involves a negotiation between the prospective principal and agent.

⁴⁵⁹ Eisenhardt, K. (1989), p. 63

⁴⁶⁰ Eisenhardt, K. (1989), p.63

Furthermore, in circumstances where there is already an existing contract between a principal and an agent which is due to expire, either an extension of the contract or a contract renewal might be made. In those cases it is possible that negotiation processes between the principal and the agent become the decisive processes leading to contract determination. Thus over time negotiation and hence power mechanisms might figure prominently in a PAR. Even where contracts are destined to expire and new contracts awarded on the basis of a new open tender, it is often the case that the existing agent starts from a good position relative to its potential competitors, at least in terms of potentially having more information as well as more relevant recent experience of the area which is the subject of the tender.

A further criticism of the validity of PAT concerns its apparent neglect of the environmental context of principal-agent relationships (PAR). According to Arrow (1985) PAR *'typically ignores socially mediated rewards & systems of ethics'*. Consequently the three-way interaction of P, A and their respective environments was neglected and over time might be omitted entirely. This could be important because, as shown in figure 1, a range of imbalances of power can be associated with a range of market contexts, from monopsony to monopoly. Indeed it can be argued that under any conditions of mutual dependence, even those where there is a balance of power between the principal and potential agents, that power mechanisms will inevitably be present.

Irrespective of the existence or otherwise of relations of mutual dependence, Chang (2010) has argued that 'free markets' do not exist; markets rely for their functioning on the existence of regulatory institutions and on political processes and institutions for the enforcement of the latter. Here the ubiquity of the regulatory context also implies the ubiquity of power and of relations of power in markets. Markets thus conceptualised are 'political artefacts' (Chang 2010); the power-free 'perfect market' exists only as a utopia.⁴⁶¹

An implication of the above points is that in so far as power mechanisms are not included and the environmental context of PARs is neglected or understated, then PAT approaches to, and explanations of, conflict resolutions in PARs may have limited validity empirically.

(ii) Application of PAT: it has been argued that in practice the application of PAT has been fundamentally deficient. For example, Perrow (1986) criticised PAT for being 'one-sided'. For a theory which was supposed to be about the relationship between a principal and an agent, PAT in its application nonetheless neglected many of the potential realities when these were considered consistently from the standpoints of all of those in a PAR, in particular from the standpoint of the agent. According to Perrow (1986) in the application of PAT: (i) failing appropriate pre-emptive measures, the principal was assumed to be at the mercy of the agent (e.g. in relation to agent opportunism such as allegedly evidenced in the propensity of the agents to shirk) (ii) monitoring of PAR outcomes was assumed to be available to, or only done by, the principal (iii) organised action by agents was absent. Perrow argued that none of these assumptions were realistic.

Another criticism of PAT in practice was that the key concept of 'efficiency' may be inadequately defined and/or inadequately scoped. Potential or actual conflict between principal and agent in a PAR begs questions about what constitutes 'efficiency' in a PAR. From whose standpoint is 'efficiency' in a PAR to be defined? In determining criteria of 'efficiency' how should the respective objectives of the principal and the agent be weighted, particularly where there are conflicts between the principal and the agent in their objectives from time to time and in particular contexts? What

⁴⁶¹ That is why 'perfect markets' are not shown in Figure 1, not even under configuration 1 in that Figure.

account should be taken of PAR impacts outside of the PAR (i.e. of externalities) and of unintended consequences?

To the extent that in PAT the environmental context of a PAR is neglected then the concept of efficiency may also be inadequately scoped. For example, the compliance of an agent with the wishes of a principal may depend on the power the agent has in its resource markets – an agent may be able to exploit its workforce as a means of surviving the transfers of wealth in the PAR from the agent to the principal which the principal has been able to extract due to the agents resource dependence on the continuation of the PAR.

(iii) Limitations on the attainment of ‘efficiency’: even if a concept of ‘efficiency’ is clearly defined and adequately scoped within a PAT framework, it is moot whether in practice the attainment and maintenance of efficiency in a PAR will be robust. Enders et al (2013) have argued that factors such as bounded rationality, changing political beliefs and goals, path dependencies, political compromises and organizational characteristics will place limits on the extent to which objectives generated in a PAT framework will be attained. Take two factors for example, imperfections in information and the potential for change in the balance of power in PARs. In regard to information: Stiglitz (2001) and others have argued that information is not simply the transaction cost assumed in the classical competitive model (and as stated above also assumed in PAT): *‘The most fundamental reason why markets with imperfect information differ from those in which it does not is that actions (including choices) convey information, market participants know this, and this affects their behavior’.*⁴⁶² In reality, even a small imperfection of information can have a profound effect on the nature of the equilibrium such that there might not be equilibrium at all.⁴⁶³ *‘Under the imperfect information paradigm, markets are almost never Pareto efficient’.*⁴⁶⁴

In regard to the balance of power in a PAR: over time whether on particular issues and/or in particular contexts there is the potential for the balance of power in a PAR to change. To the extent that power shifts occur then so too may the distributional outcomes of a PAR also change. Not only might such changes impact on the attainment of ‘efficient outcomes’ they might also function to change the rules of the game so that what has previously been defined as ‘efficient’ might also change.

(iv) Processes of structuration can function to bring about mutually reinforcing impacts on PARs and on their environments: a feature of the limitations of PAT which have been set out above is how much they have the potential to go beyond being merely additive, but also to be mutually reinforcing. The ubiquity of the exercise of power in the determination of conflicts in PARs may function to establish and maintain relatively narrowly based and/or one-sided definitions of ‘efficiency’ in PARs. The environmental context of PARs may be an important source of asymmetries of power in PARs. These two factors (the exercise of power in PARs and the environmental context of PARs) may come together over time in processes of structuration: once they are established, PARs may function to reproduce the same environment which enabled the institutionalisation of asymmetries of PARs in the first place.

⁴⁶² Stiglitz, J. (2001), p. 485

⁴⁶³ Stiglitz, J. (2001), p. 477, pp 484-485

⁴⁶⁴ Stiglitz, J. (2001), p. 486

9.3 Critique of M_G as an Approach to Public Sector Management

In the following the IOR of the inquiry and the conditions of M_G under which it was conducted are taken as an example of a PAT approach to public sector management.⁴⁶⁵ This approach is evaluated in three parts. In part one the focus is on the key advantage claimed for a PAT approach, viz. outcomes efficiency. The actual outcomes of the M_G approach are summarised and the question asked whether these outcomes were an example of optimal efficiency? In part two the validity of the PAT approach is examined. Here the focus is on how the outcomes of the M_G came about, in particular to examine how the assumed conflicts in the PAR were managed. Were these conflicts 'resolved' as assumed in PAT by the operation of the 'price mechanism' or if not resolved by the price mechanism, how were these conflicts resolved if they were resolved at all? In part three the main conclusions from parts one and two are brought together and an overall evaluation made of the M_G approach.

9.3.1 M_G and IOR Efficiency Outcomes

'Efficiency' in the M_G and the IOR is defined on four parameters of in/stability:

- Risks and the allocation of risks in the IOR on dimensions 1-6
- Price and Performance – IOR dimensions 10, 12 and 14
- Outputs Quality Performance – IOR dimension 13
- Outputs Quantity – IOR dimensions 7-8

The efficiency outcomes in the M_G and the IOR on these four parameters are summarised in Table 23 below. At IOR level, a threatened instability (TRI) was the main overall outcome on three of the four parameters: on contract risks and outputs quantity for the last seven years of the reference period and on price for the whole of the reference period. The outcomes at M_G level were similar (here some of the outcomes data were estimated). On outputs quality the outcome was stability at IOR level for the whole of the reference period, and predominantly there was stability also at M_G level.⁴⁶⁶

If efficiency is defined taking account of both the HEIs and the GM standpoints then overall these outcomes do not support the claim that would be made for a PAT approach that the most efficient outcomes were brought about by the M_G . However all of the TRI outcomes were such only from the standpoint of the HEIs. Thus, if efficiency was defined only from the GM's standpoint then the 'stable' outcomes on outputs quality arguably represented good value for money. That begs the question whether this narrow definition of efficiency was appropriate. In practice this would to some extent depend on how the HEIs (including MU) managed the risks associated with TRI outcomes and whether in managing those risks there were consequential costs – costs which would not necessarily figure if only a GM centred definition of efficiency was used. This issue is considered in the next sub-section. Before that however it should be stated that for the first half of the reference period (1995-2004) the outcomes on the contract risks and output quantity parameters were predominantly 'stable' at both IOR and M_G levels. The move to a threatened instability on those parameters was not

⁴⁶⁵ Given the exploratory nature of the inquiry and its focus on a single case study the conclusions in this section should be treated as indicative only; for generalisation of these conclusions to M_G approaches to public sector management, it is recommended that further research be conducted in order to validate the methodology and findings of this inquiry – see recommendations for further research made in Chapter 10 and set out in Table 26.

⁴⁶⁶ Anecdotal evidence was that one of the 13 supplier universities in the London region consistently had difficulty in satisfying the GM requirements, particularly in relation to VFM criteria – an attrition of over 40% at major programme level was once reported. In contrast there were no such difficulties reported over the whole of the reference period for any of the other 12 university education providers to the GM.

associated with a change in outputs quality – the outcome on the latter had been ‘stable’ and continued to be so.

Caption to Table 23

- In/stability impacts are colour coded: amber (threatening entry to a range of instability) and green (stability) for each of the four parameters for the relevant years. Example: For ‘Risks’ at IOR level the dominant stability impact for the years 2005-2013 is shown as ‘TRI’.
- In/stability impacts on two levels are shown, at M_G and at IOR levels respectively. IOR level assessments are drawn directly from the findings of the research inquiry and summarised in Tables 3, 11-20. M_G level stability impact assessments were based on secondary data drawn from many sources, including GM published assessments of M_G performance covering the years 2007-2013 (Archive 13-15, NHS London 2011, Health Education England Pan-London Quality and Education Unit 2014), and published price reviews by JM Consulting in 2003 and 2008. Two of the stability impact assessments at M_G level - for Price and for Outputs Quality covering the years 1995-2006 – were best estimates from the available data and were inferred mainly from the findings of the National Audit Office 2001 review and the JM Consulting 2003 price review. However both of these estimates are believed to be reliable.
- With regard to the stability impact assessments generally at M_G level: IOR contracts and pricing terms were uniform in the M_G during the last 6 years of the reference period, 2007-2013. For most of the reference period changes in output quantity allocations of demand to its suppliers made by the GM were also uniform. Given the similarity in the costs base of suppliers - particularly in direct costs where there were closely prescribed standard curricula and curricula delivery (e.g. standard SSRs enforced by the relevant professional bodies) - it is believed that the M_G level assessments shown in Table 23 are robust.
- Types of power dependence responses made in the IOR by MU and the GM are shown for three of the four parameters (risks, price and output quantities) for the relevant years in which these were made.

TABLE 23: 'Efficiency' of New Public Management (NPM) at M _G and IOR Levels - In/stability Impacts and Power Dependence Responses					
Key: Green cells = Stable; Amber cells = TRI; Red cells = Unstable					
		RISKS	PRICE	OUTPUTS	OUTPUTS
		Allocation of Contract Risks IOR Dimensions 1-6	Supplier Financial Sustainability IOR Dimensions 10, 12, 14	Quality IOR Dimension 13	Quantity IOR Dimensions 7, 8
	M _G Level	2008 - 2013	1995 - 2006?; 2007 - 2013	1995 - 2006?; 2007 - 2013	2006, 2010 - 2013
	IOR Level	2005 - 2013	1995 - 2013	1995 - 2013	2006 - 2013
Power Dependence Responses					
MU	Cost Reduction/Productivity Improvement		2006 - 2013		2006 - 2013
MU	Internal Cross-subsidy		1995 - 2009		
MU	Acceptance of Increased Risk	2005 - 2013			
MU	Lobbying	2011	2005 - 2007, 2009 - 2011		
MU	Coalition Formation	2008	2010, 2011		
GM	Output Demand Changes				2002 - 2006, 2009 - 2013
GM	Rent Extraction	2005 - 2013	1995 - 2013		
GM	Increasing Compliance Surveillance	2007 - 2013			
GM	Lobbying	2011	2009, 2011		
GM	Exercise of Discretion or Veto	2005 - 2008, 2011, 2012	2005 - 2006, 2009		2010 - 2012
GM	IOR Rules Change	2005, 2007, 2008, 2012			
GM	Transfer of Risk	2005 - 2013			
Sources of Evidence					
M _G Level:		Archive References: 8, 37-41, 47, 49, 85, 130-144	National Audit Office (2001); Archive References: 11, 28, 47, 49, 70-71, 79-82, 85, 93, 102, 106-129, 130-144	National Audit Office (2001); NHS London (2011); Health Education England (2014); Archive References: 13-15	Archive References: 5, 47, 49, 67, 79-82, 85, 130-144
IOR Level:		----- As stated in Chapters 5 and 6 particularly in regard to data elements in Tables 3, 11-20 -----			

9.3.2 Conflict Management and Resolution

As already evidenced and discussed in Chapter 6, the TRI outcomes in the IOR and the M_G were strongly associated with the GM exercise of power and the power dependence responses of MU – the different types of responses involved and the parameters with which they were associated at M_G and IOR levels are summarised in Table 24. GM exercise of power included:

- For the period 1996 – 2009 a conscious exploitation by the GM of the under-pricing by MU in 1995.
- GM transfer of contract risks to MU through the instigation of one year interim contracts for the period 2005-2007
- GM delay to the implementation of the BMP in 2005 and 2006 consequently continuing its rent extraction from MU on the price dimensions of the IOR
- GM initiating the renegeing by the DH of the price agreement reached with the CoDH in 2008, again with significant consequential losses to all of the university education providers in the M_G , losses which continued on a recurrent annual basis to the end of the reference period (and beyond)
- GM in concert with all other GMs in England and with the approval of the DH acted to lift the ring fencing of the MPET budget and subsequently transfer MPET resources to service budgets while at the same time substantially reducing education demand for output quantities.
- GM rejecting the new National Standard Contract in 2006/07 and instead continuing to reject initiating and implementing the London Education Contracts (2008 and 2012) which consolidated a number of the risk transfers to the universities which had begun with the interim contracts in 2005.
- GM attempt in 2010 to transfer further risk (related to student attrition) to the university education providers (including MU). Following frustration of that attempt the GM exercised its discretion to put that potential transfer back on to the future agenda for its 'management of the supplier landscape'.

Each of these exercises of power by the GM was followed by power dependence responses from MU. These responses included cost and productivity improvements e.g. reductions in staffing consequent on reductions over the long-run in GM outputs quantity demand. Given the shortfall of the unit price relative to its FEC, MU's also responded in ways which were driven by the requirement for survival rather than by the requirements of efficiency e.g. internal MU cross-subsidy and the acceptance of increases in the risks associated with its IOR. Productivity improvements were also sometimes associated with increased risks e.g. reducing staff-student ratios to levels which were outside the parameters set by the professional bodies; imposing restraints on the pay of MU staff over the period 2009-2013 though the acceptance and implementation at local level of national agreements on pay. Costs to MU were associated with all of these responses, particularly cross-subsidies which though external to the IOR were directly due to the exercise of power by the GM.

In addition to these internal accommodating types of responses to the GM exercise of power, MU also sought to manage the external environment of its IOR e.g. by lobbying and coalition formation (see power game 2). What was common to all of these responses, the internally as well as the externally orientated responses, was the conflict on resources between the GM and MU/universities which stimulated them. What was also common to these responses and to the GM actions which provoked them was that they were manifestations of struggle between the GM (as principal) and the universities (as agents). These conflicts were not resolved through an impersonal price mechanism. Rather the price mechanism was operated primarily by the actions of the GM, but also through the

interactions of the GM with the universities, MU and decision makers and influencers (such as the DH and JM Consulting) in the environment of the M_G.

9.3.3 Evaluation

The practical application of PAT as part of an NPM approach to NHS-HE relationships was evident in the IOR and the M_G. The main technique used – contractual funding – which was widely drawn and detailed from the outset of the IOR had by the end of the reference period become comprehensive in scope and also more detailed. In so far as the IOR as well as the M_G functioned consistently to produce outputs of the requisite quality over the whole of the reference period then it could be claimed that the NPM approach functioned positively in regard to one of the key objectives in the commissioning of non-medical education. However this quality outcome came at a high cost to MU and to the other university education providers in the M_G, and involved risks being borne by those providers which became higher over the course of the reference period to the point that on most dimensions of their IORs a threatened instability became the norm. All of the potential limitations in theory of a PAT approach to NPM which were outlined earlier in this Chapter (see sub-section 9.2.2) came to life in the substantive application of PAT both in the M_G and in the IOR. For example:

- The efficiency objective of PAT was defined in the context of the M_G by the GM in December 2007; as stated in Chapter 6 the objective was defined in VFM terms as the maximisation of education outcomes per £ spent. However this was a relatively narrow definition of efficiency: only the GMs commissioning costs were included. The definition of efficiency was also sufficiently general as to permit a wide interpretation of its meaning and application. Thus it was no problem to the GM to agree the DH lifting of the ring-fencing of the MPET budget in 2005 and then to divert funding which had been designated for workforce education to NHS service budgets so that NHS Trusts could be kept out of going into recurrent deficit for the budget year and the pretence of progress toward the transformation of Acute Hospital Trusts into economically viable stand-alone Foundation Trusts could be maintained.
- As Perrow (1986) had observed in theory about PAT, the M_G and the IOR were indeed one-sided. Rather than the GM/Principal being at the mercy of the HEIs/agents, the reverse applied in practice. Conflicts between the GM and the HEIs, including MU, were not resolved by the ‘price mechanism of economics’ but were managed by mechanisms of power. Unit price (the UoR) itself was determined over the whole of the reference period largely by the asymmetry of power between the GM and the HEIs/MU. The consequences of all this was rent-seeking by successive GMs and a rent extraction not just of economic rents but also of HEI/MU quasi-rents. At no point during the reference period did any GM express any concern about the potential economic unsustainability from the suppliers’ standpoints of this state of affairs.

Block and Barnett (2009) were right to claim that the concept of government monopsony was a useful concept, that is in terms of the coherence of the concept and its potential applicability in practice – the establishing of the M_G throughout England in the early 1990s and their subsequent maintenance and development over a 20 year period is evidence of that usefulness in practice. However, on the evidence of this research inquiry Block and Barnett (2009) were also right on one other point: ‘*government monopsony ...describes a reprehensible economic system*’.⁴⁶⁷ Given the evidence of M_G outcomes in this inquiry, it is the writer’s opinion that M_G should not be an approach used to manage NHS-HE IORs nor more generally should it be used to manage higher education.

⁴⁶⁷ Block and Barnett (2009), p. 80

9.4 Update (January 2016) on NHS-HE Inter-sector Institutional Outcomes and Arrangements

The last year of the reference period was 2013. The purpose of this section is to provide an update (to February 2016) on developments and outcomes which have taken place since the end of the reference period – March 2013 - and thereby to set the scene for the substantive recommendations for policy and management which are made in the last section of this Chapter (section 9.5).

M_G and IOR arrangements: In April 2013 the NHS was restructured. As part of this restructuring the 10 M_Gs throughout England were rationalised into one, national level, M_G. This M_G was initially designated as a ‘special health authority’, Health Education England (HEE). Later, with effect from April 2014 HEE became a ‘Non Departmental Funding Body (NDPB)’. As an NDPB, HEE was technically independent of ministers and government and at arm’s length from the DH.

Thus in 2015 there were 64 universities (HEIs) in England which had a contract based IOR with the new GM (HEE).⁴⁶⁸ In return for the provision of education to agreed standards, HEE paid HEIs for costs of their provision at an agreed national tariff, the BMP. About 75% of the IORs had contracts based on the 2010 National Standard Education Framework Agreement (NSEFA); in the other 25% of the IORs the contracts were either the 2008 or the 2012 versions of the London Education Contract (the LECs).⁴⁶⁹ Under the terms of all of these contracts the HEIs were not allowed to charge tuition fees to their students; all funding came from the allocation to Nursing and Midwifery education and training (NMET) within the MPET Education and Training Levy (MPET). The MPET funding, which was held by HEE, was an allocation from the overall annual recurrent budgets to the NHS in England.

A continuing story of instability: In July 2013, NHS England announced that in addition to the Nicholson Challenge, a *further* (£30bn) p.a. needed to be saved by 2020/21 if the NHS was to avoid going into deficit.⁴⁷⁰ To bring about this saving, a year on year ‘efficiency improvement’ target of 4% p.a. to 2020/21 was set for the NHS. In October 2014, NHS England in its 5 year forward view restated the (£30bn) savings target and proposed that if government was immediately to fund c. (£8.5bn) of the gap then the remainder of the projected deficit could be avoided by an achievable ‘efficiency improvement’ in NHS operations of c. 3% p.a.⁴⁷¹

In late 2013, HEE opened negotiations with the HEIs represented by the CoDH and UUK, on the BMP. HEE eventually proposed a 4% real terms cut to the BMP for 2014/15.⁴⁷² HEE justified their proposal on the grounds of what was thought to be ‘affordable’ within the budgeted resource context of the NHS in England and that no providers to the NHS should expect to be exempt from the efficiency improvement requirements that had been set for the NHS in England generally.⁴⁷³ This proposal was

⁴⁶⁸ Walsh and Jelfs (2015)

⁴⁶⁹ These estimates were computed using data from the following sources: MPET and NMET Budgets 1997/98-2012/13: FOI Response from the DH, August 2013; NHS London (2007). The approximate percentages relate to the relative size of the IORs by output volume and value, and not to the number of those IORs.

⁴⁷⁰ Source: NHS England (2013) ‘*The NHS belongs to the people: a call to action*’. Available at: <http://www.england.nhs.uk/2013/07/11/call-to-action/> Accessed March 2014.

⁴⁷¹ Source: *NHS 5 Year Forward View*, October 2014, p. 36. Available at: <http://www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf> Accessed November 2014

However, at no previous time in its history had the NHS recorded an efficiency improvement of greater than 1% in any given year so it remained a moot question as to whether a 3% p.a. efficiency gain was a realistic target.

⁴⁷² Source: HEE letter to UUK 4th March 2014 – Archive 55

⁴⁷³ Source: HEE letter to UUK 4th March 2014 – Archive 55

rejected by CoDH/UUK on two grounds.⁴⁷⁴ Firstly, CoDH estimated that there was a shortfall of c. (11.4%) of the BMP from estimated standard cost had already developed by 2013/14 - the 4% cut proposed by HEE would increase that shortfall further to c. (15.4%).⁴⁷⁵ With the prospect of further 4% cuts to the BMP to come in future years CoDH/UUK concluded if those cuts were implemented, then most HEIs eventually would find their NHS contracts had become financially unsustainable.

Secondly, CoDH/UUK pointed out that the proposed cut to the BMP would be in breach of the (NSEFA),⁴⁷⁶ specifically by not implementing the 5 yearly review of the BMP which under the terms of the NSEFA was due to have been carried out in 2013.

In October 2014 after escalation processes in their negotiations had been invoked, HEE and CoDH/UUK reached an agreement that the BMP was to remain at the same level in nominal terms as it was in 2013/14 for the period 2014-2016.⁴⁷⁷ However, this was regarded by CoDH/UUK as 'a holding agreement' only: HEE had not agreed the 5 year review of the BMP be carried out; until that was done it was likely that the BMP funding shortfall would continue to increase with the potential consequence that eventually the output quality of the HEIs in their IORs would be impaired and/or that HEIs would find their IORs had become financially unsustainable.

A further source of instabilities was in the IOR contracts: HEE had also proposed in its negotiations with CoDH/UUK several changes to the existing NSEFA.⁴⁷⁸ These proposed changes reflected significant shifts from HEE to the HEIs in the burdens and risks to be borne by each of them under their IOR contracts and also in the rights of HEE to determine simultaneously *both* future BMP (price) as well as output demand levels. UUK/CoDH rejected these proposals and altogether raised several 'key areas of concern' with HEE about the changes which HEE had proposed.⁴⁷⁹ At the end of the 2014 BMP negotiations HEE maintained its intention to implement new contracts for all of its IORs with HEIs which would become effective from 2016/17.

Lobbying by CoDH/UUK in 2014/15 and the 2015 'Autumn Statement': during 2014 and 2015 CoDH and UUK with assistance from the writer lobbied the Department of Business Innovation and Skills (BIS) and HM Treasury (HMT) for a new funding model for non-medical education.⁴⁸⁰ In June 2015, the CoDH and UUK issued a joint statement which called on the government '*to consider urgently whether the current system of NHS-funded grants can be moved to a system of student loans*'.⁴⁸¹ CoDH/UUK also asked that in changing to a student loan system that safeguards be put in place relating to student recruitment, particularly in regard to widening participation objectives and mature students; CoDH/UUK also suggested in regard to attracting newly qualified staff into careers in the NHS and social care that consideration be given to '*offer repayment of part of a student's loan after a given period of service*'.⁴⁸²

⁴⁷⁴ Source: CoDH Policy Bulletin 21st March 2014 – Archive 54; CoDH/UUK report to members 27th February 2014 – Archive 52

⁴⁷⁵ Source: CoDH/UUK (2014) '*BMP Funding Gap 2007-2014*' – Archive 11

⁴⁷⁶ Source: Email 8th January 2014 from Director of Policy, CoDH to BMP Steering Group – Archive 57.

⁴⁷⁷ Letter from HEE to UUK dated 14th November 2014; copy of letter included in Archive 72.

⁴⁷⁸ Source: Email 8th January 2014 from Director of Policy, CoDH to BMP Steering Group – Archive 57.

⁴⁷⁹ Source: UUK/CoDH Report of Key Concerns (January 2014) – Archive 53

⁴⁸⁰ Over the course of 2013-2015 in his role as Senior Policy Advisor to the CoDH the writer produced several briefing papers about the BMP and the current relationship between the NHS and HE in non-medical education, including Walsh and Jelfs (2015) and Annex B to this dissertation (June 2015).

⁴⁸¹ CoDH/UUK (June 2015)

⁴⁸² CoDH/UUK (June 2015), p.2

The outcome of this lobbying was a decision by the government to move the funding model for non-medical education tuition fees as well as student support, to the HEFCE funding model with effect from 2017/18. The decision was confirmed in the Autumn Statement by the Chancellor of the Exchequer on 12th November 2015 when it was announced that from 2017/18 government funding ('direct funding') of 'nursing students'⁴⁸³ would be withdrawn and replaced by student loans – in effect non-medical students/graduates would become liable to pay the costs of their tuition.⁴⁸⁴ At the same time the cap on the recruitment of 'nursing students' would be lifted. However the government plans did not mention safeguards relating to widening participation and mature students, and there were no plans to allow NHS employers to fund repayment of student loans on the basis of NHS service.⁴⁸⁵ Thus when they are implemented the main effects of these policy changes will be (i) to bring to an end the M_G in non-medical education (ii) establish the same type of funding for non-medical education subject areas as for other subject areas in the HE system.

9.5 Substantive Issues, Scenarios and Recommendations for Policy and Management

In this section substantive issues associated with the current and planned HE-NHS inter-sector arrangements are discussed and some recommendations for policy and management are made.

9.5.1 Substantive Issues

(i) Financial sustainability of the current regime: the government MPET funding of non-medical education is based on recurrent annual budgets. Since the lifting of the ring-fencing of the MPET budget in 2005, these budgets have proven susceptible to short run exogenous shocks. One of the consequences has been an incentive for the GM to exercise its M_G power to extract quasi-rents from its suppliers and to be erratic over time in its demand for output quantities. The cuts to education commissions at pre-registration level over the period 2010/11-2012/3 were one example of where demand quantities were tailored to fit budgets constraints exogenously determined rather than geared to meet NHS workforce needs.⁴⁸⁶

(ii) Student recruitment and retention: the withdrawal from 2017/18 of government support for the funding of tuition fees and maintenance grants for pre-registration degree level non-medical students could substantially affect student recruitment and retention. Non-medical students are different from most other undergraduates in two important respects: (i) the length of their courses during the year – typically nursing students have 42-45 week programmes for each of the 3 years of their degree, 50% of which time is spent in placement with healthcare providers. This means that these students have relatively little time left over to earn while they study. At the end of a 3 year programme the outstanding debt incurred during their 3 years of study could easily amount to c. £60k and somewhat more for the 25% of non-medical students who study and train in London (ii) c. 61% of those accepting a nursing place the non-medical student body in 2014/15 were aged over 21.⁴⁸⁷ In 2013/14 applications to full-time degree programmes fell by 8.0% decrease in the 21-24 age

⁴⁸³ 'Nursing students' was a popular shorthand description for all students in non-medical occupations. In numbers terms these comprised mostly nursing students. In addition to the latter there were also midwifery and allied health professions students.

⁴⁸⁴ HM Treasury (2015)

⁴⁸⁵ A £200m allocation was made to the DH to be used to assist in the implementation of the changeover to the new system. However the allocation was non-designated so that no specific earmarking for widening participation and mature students was made; in any event the allocation was a one-off allocation, not a recurrent budget.

⁴⁸⁶ Source: Council of Deans of Health (2015)

⁴⁸⁷ Source: UCAS 2014 data.

bracket and 10.5% decrease in the 25+ age bracket, a pattern which was also found in 2012/13 when the biggest shift to student loans was made.⁴⁸⁸ Studies of student attrition in non-medical subject areas have consistently shown that financial factors were a significant factor. This should be expected to be of particular relevance to mature students where financial burdens associated with their age and stage of the life cycle may be greater than for other younger graduates.

(iii) Graduate retention in healthcare occupations employment: although the earnings of new graduates in healthcare occupations are typically above average for all graduates, the lifetime average earnings of those graduates would on average be expected to be less. HMT and other analysts estimate that the RAB charge for nursing students would be c. 70% - 75%. With in service attrition rates amongst registered nurses already reported to be at relatively high levels and increasing, the issue arises whether with increased debt many graduates would leave nursing at an even earlier time, especially from now on given that their graduate status might provide more opportunities to migrate to other careers.⁴⁸⁹

(iv) Matching HE outputs with NHS workforce manpower requirements: the history of this over the whole of the reference period and to the present (2016) has been one of 'boom-bust' in education commissioning (CoDH 2006) and one of a 'stop-go' recruitment pattern from outside of the UK to make up shortfalls in the NHS manpower when domestic supply was insufficient to meet demand.⁴⁹⁰ It is most uncertain what the impact will be of the removal in 2017/18 of the cap on student recruitment to non-medical programmes, especially when that change is combined with the changes to student support and the other factors noted above. One area of concern will be recruitment to specialist non-medical occupations where only relatively small variations in numbers of graduates could have significant effects. Another concern will be to ensure minimum numbers of graduates, for example in midwifery, where there is relatively less flexibility for healthcare providers in the short run to tolerate a situation where actual staffing levels are running at well below the guidelines for 'safe staffing'.

(v) Full coverage of HEIs' FEC: the 'settlement' reached between the CoDH and BIS/HMT was for the 2017/18 UoR for nursing to be equal to the current 2015/16 standard assumed fee of £9000 plus £600. The existing differentials with higher priced programmes (such as Midwifery and Radiography) existing under the BMP would be preserved. However, it is likely that that UoR (£9600) would still leave a funding gap in 2017/18 on HEIs FEC of c. 5% - 8%. Furthermore, at the time of writing the HEFCE was querying with the CoDH whether the UoR agreed with BIS was too high and should be reduced. These points underline the importance in the forthcoming negotiations with the HEFCE, for the universities to have good information about the costs of their provision at requisite levels of quality, information which is accepted by government agencies such as the HEFCE as valid and robust. With fair comparisons with all of the subject areas in its purview to be taken into account, the HEFCE's concerns and caution on this matter are perhaps understandable.

(vi) Allocations of burdens and risks in HEI contracts: the actual allocations of burdens and risks between the GM and MU were found to an important source of threatened instability in the IOR. The new HEFCE contract promises much improvement in this area. Nonetheless, given the distinctive characteristics of non-medical education it should be helpful to the future stability of the HE-NHS ISR to tailor the HEFCE teaching contract in some areas.

⁴⁸⁸ Source: IOC (2014), pp 16-19

⁴⁸⁹ It was only as recently as 2013 that it became compulsory for all non-medical students aspiring to professional registration required a degree. Before 2013 the professional entry bar had been set at 'advanced Diploma' level.

⁴⁹⁰ Buchan and Seccombe (2011; Buchan (2012); Buchan, Seccombe and O'May (2013),

(vii) Allocations of responsibilities for placements: this is one of the putative areas referred to in the allocations of burdens and risks. It deserves to be mentioned here specifically because of the relative importance of placements in the education provision in non-medical subjects. Indeed it is arguable that placements and their successful integration with the academic part of the education provision is the cornerstone of the HE-NHS ISR. The main threat to the quality of the ISR has been whenever the short-run needs of the service have been allowed to trump the quality of the placement and the mentoring guidance and support given to the student while in placement.

(viii) HEI IOR management effectiveness: the importance to HEIs of managing the external environment of their IORs was an underlying theme in the inquiry. Information was seen to be important in enabling HEI management to understand the performance of their IORs on many dimensions, including dimensions of risk. Valid, robust, relevant and timely information was also important in providing a starting point for the development of strategies in inter-HEI collaboration and for influencing key decision-makers.⁴⁹¹

9.5.2 Scenarios and Recommendations for Policy and Management

Three scenarios of stability impacts on each dimension of the IOR in 2017/18 are presented in Table 24 below. In scenario one it is assumed that the HEE contract framework proposals were implemented. Scenario two has been constructed on the basis of the policy which underpinned the announcement in the 2015 Autumn Statement i.e. the planned changeover to the HEFCE contract in 2017/18 on the terms that were agreed between BIS and the CoDH. These terms include future funding for tuition fees and student support coming from student loans. Scenario three has also been based on the changeover to the HEFCE contract with the difference from scenario 2 that the 20 recommendations summarised in Table 25 have been accepted and implemented; an important part of these recommendations is a full review of the funding model and a recommendation that government funding of non-medical tuition fees and student support be continued. Taking stability in the IOR level of the inquiry as a proxy for stability of IORs generally in non-medical education as well as for stability at HE-NHS ISR level, recommendations are made for both ISR and IOR levels.

For background information and comparative purposes, stability impact assessments are shown for each of the 14 dimensions of the IOR covering years starting in 1995/96 until 2012/13.

Caption to Table 24

- Against a history of in/stability impacts in the IOR over the reference period, and taking account of developments following the end of the reference period in the NHS-HE institutional arrangements, three in/stability impact scenarios for 2017/18 are presented:
 - i. In scenario 1 it is assumed that a national contract framework for IORs proposed in 2013 by HEE would become the new national standard contract for all non-medical IORs in England.
 - ii. In scenario 2 it is assumed that a new national standard contract for all IORs would be closely based on the existing HEFCE teaching contract. In scenario 2 it is also assumed

⁴⁹¹ A example of the importance of credible valid information to HEIs in putting their case for higher fees occurred in November 2014 in the review by the Higher Education Commissions of the £9000 fees cap. In its report the Commission concluded: *'Universities see ... the cap on tuition fees, as a threat to their continued sustainability ... however the Commission has not been presented with strong evidence from universities that it costs more than an average of £9,000 to deliver good quality courses'*. Source: Higher Education Commission (2014), p.11

that funding arrangements would be on the basis of a combined student loans and HEFCE supplement as agreed between BIS and CoDH/UUK and which was the basis of the announcements made in the 2015 Autumn Statement.

- iii. In scenario 3 it is also assumed that a new national standard contract for all IORs would be closely based on the existing HEFCE teaching contract. In scenario 3 however additional assumptions are made about the UoR and about government funding: the UoR would be based on the HEFCE price group B; funding of tuition fees and student support would continue to come from government - tuition fees would initially be the liability of students under the student loan system. However the liability for tuition fees would pass to NHS employers once students had served an agreed period in the NHS. NHS employers would be funded by government for this purpose by a fully ring-fenced education fund; student support would continue to be funded as under the current (2015/16) system, i.e. by a combination of student grants and loans.
- In scenario 1 a further decline in the stability of HEI NHS IORs is forecast, including actual instability on price dimension 12 and IOR performance from the HEI standpoint (dimension 14).
- In scenario 2 an improvement of the stability of contract dimensions is forecast. On output dimensions 7 and 8 a threatened instability is forecast. As in scenario 1, instability on price dimension 12 is forecast. Instability impacts are forecast for the first time to affect both performance dimensions (dimensions 13 and 14). The latter is associated with the combined impact of the forecast instability on price dimension 12 and the forecast threatened instabilities on output dimensions 7 and 8.
- In scenario 3 a 'stable' outcome is forecast on 13 of the 14 dimensions of the IOR. Only on price dimension 9 is a threatened instability forecast. The key differences between scenario 3 and scenario 2 are: (i) the HEFCE UoR to HEIs is set at a level which equals the assumed standard costs to the HEIs of their education provision at the requisite level of quality (ii) the government continues to fund the HEIs' tuition fees and continues to provide maintenance grants to students at 2014/15 levels of support.

TABLE 24 (February 2016): IOR Stability: Impacts 1995 - 2013; Health Education England and HEFCE Scenarios 2017/18											
Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable											
	Stability Assessments						Scenario 1 HEE Contract Framework	Sources of Evidence of Scenario 1	Scenario 2 HEFCE Contract and Student Loans	Sources of Evidence of Scenarios 2 and 3	Scenario 3 HEFCE Contract and Government Funding
	1995/1996	2004/2005	2005/2006	2007/2008	2008/2009	2012/2013	2017/2018		2017/2018		2017/2018
IOR Key Outcomes: COMPONENTS & Dimensions									Assumptions: (i) HEFCE Standard Tuition Fee plus £600 p.a. (ii) Student loans funding for tuition fees and student maintenance		Assumptions: (i) HEFCE Price Group B Tuition Fee (ii) Government funding for tuition fees and student maintenance
CONTRACTS											
1 Duration	S	TRI	TRI	TRI	S	TRI	S	Archive 57	S	HEFCE Teaching Contract	S
2 Termination	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	S	Ditto	S
3 Compliance - Information; Management & Review	S	S	S	S	TRI	TRI	TRI	Ditto	S	Ditto	S
4 Placement Responsibilities	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	S	Ditto	S
OUTPUTS											
5 Output Specification	S	S	S	S	S	S	S	Ditto	S	Ditto	S
6 Output Floors & Ceilings	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	TRI	Ditto	S
7 Size of Short Run Variability of Output Quantities	S	S	S	S	S	S	S	Forecast	TRI	Forecast	S
8 Trends in GM Demand for Output Quantities	S	TRI	S	TRI	TRI	TRI	S	Forecast	TRI	Forecast	S
PRICE											
9 Price - Innovation	TRI	TRI	TRI	TRI	TRI	S	TRI	Archive 57	TRI	HEFCE Teaching Contract	TRI
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	Ditto	TRI	Forecast; Archive 11; Walsh & Jelfs (2015)	S
11 Basis of Price - OBC Risk	S	S	S	S	S	S	TRI	Ditto	S	HEFCE Teaching Contract	S
12 Actual Price v Supplier's FEC	U	U	U	U	U	S	U	Archives 57, 18, 22	U	Forecast; Archives 11, 18, 22	S
PERFORMANCE											
13 Performance (i)	S	S	S	S	S	S	S	Forecast	U	Forecast	S
14 Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	U	Forecast; Archives 18, 22	U	Forecast	S

Under scenario 1, the HEE contract framework scenario, the impact of the HEE NSEFA proposals from MU's standpoint is forecast to reduce slightly the riskiness of the contracts and output components of the IOR. The impact on the price component would be substantially to increase the riskiness (to MU) on three of its four dimensions (9, 10 and 11) and to bring about an actual instability on the fourth dimension (12).

The cumulative impact of these impacts on the IOR overall is forecast in scenario 1 to make the performance of the IOR from MU's standpoint (dimension 14) unstable. At the same time it is forecast that the IOR would continue to be stable from the GM's (HEE's) standpoint. The underlying assumption here is that MU would for 2017/18 cross-subsidise the IOR from its other non-NHS income generating activities in the University. It is assumed that MU would also meet the demands of the GM on outputs quality, quantities and contract compliance. Looking beyond 2017/18, an issue from MU's standpoint would be for how much longer and to what extent it could continue to cross-subsidise its NHS IOR.

Under scenario 2, the HEFCE Contract and student loans scenario, the IOR becomes stable on all of the dimensions of the contract component. Altogether these impacts would mean a reduction in risk to MU when compared with scenario 1. However on two dimensions of the outputs component (dimensions 7 and 8) the IOR is forecast to become less stable and on both performance dimensions the IOR is forecast to become unstable. The main reasons for the forecast instability are firstly, the transfer of a relatively substantial financial burden to students and graduates that, compared with the average of graduates from other subject areas are less able to bear such burdens, and secondly, the continuation of a shortfall of price against MU's FEC. In regard to the latter while some cross-subsidisation between subject areas in a university's teaching portfolio is inevitable and even

desirable,⁴⁹² the relative size of the student body involved in non-medical means that such cross-subsidies would also be relatively large. As such they should be expected to place an increasing strain on attainment of requisite quality in all subject areas of the university's teaching portfolio.

Scenario 3 is also constructed around the implementation of a HEFCE contract. But in scenario 3 it is also assumed that government funding of tuition fees (via NHS employers once graduates had served an agreed time in NHS employment) and student support would continue. The outcome of that combination of HEFCE contract and government support is forecast to result in stability on 13 of the 14 IOR dimensions.

Achievement of the stability forecast under scenario 3 would require that all of the substantive issues listed in the previous sub-section are addressed. A summary of these issues, the recommendations to address them and the rationale for those recommendations, and the key assumptions underlying the forecast stability outcomes in scenario 3, are outlined in Table 25 below.

Caption to Table 25

- Eight substantive issues (i-viii) forecast to be associated with the new funding regime for non-medical education are summarised.
- Recommendations to address these issues are made to policy makers and HE management. These recommendations are made for different institutional levels and at organization level:
 - i. Inter-sector level i.e. NHS-HE
 - ii. IOR and organization levels i.e. for all IORs between the relevant funding organization and each individual education provider and for each organization individually
- One of the key objectives of the recommendations at inter-sector level is to reduce the asymmetries of power associated with the current funding regime. The latter is to be achieved by abolition of the current government monopsony in non-medical education and replacing it with institutional arrangements in which more of the relevant stakeholders have meaningful opportunities to participate in shaping outcomes.
- An important recommendation at inter-sector level is to move away from the existing MPET funding model, which is tied to NHS overall recurrent funding, to a new funding model which is geared to maintaining a long-run sustainability for all of the key stakeholders and which is also better able to absorb sudden exogenous shocks. The new funding model proposed is a combination of the current HEFCE funding model which is linked with the current student loans system, and an NHS employers' funding model. The NHS employers funding would be triggered once graduates had served in employment for an agreed period in NHS service. The NHS employers funding would be ring-fenced, designated, and come from government.
- The effectiveness of the proposed new institutional arrangements will depend on the quality of participation in the relevant institutional processes by all of the key stakeholders. For this reason the proposal regarding stakeholder education is believed to be important.
- The viability of scenario 3 and the forecast stability outcomes under that scenario are founded on two key assumptions, viz. the overall adequacy of funding of the HE and NHS sectors to meet the needs for teaching, research and healthcare at the requisite levels of quality. These assumptions are shown in the Table as directly relevant to some of the recommendations at inter-sector level.
- The objectives of the recommendations at IOR and organization levels are:

⁴⁹² Hillman (October 2014) argued that cross-subsidies were not inherently bad. However, Hillman did not address the point about cross-subsidies of subject areas where the number of students was relatively large and where the cross-subsidies were made in perpetuity.

- i. To help bring about a sustainable allocation of risks and burdens between the relevant organizations in an IOR
- ii. To encourage HEI management further to develop a risk management approach to managing their IORs
- iii. To encourage HEI management to develop the information and intelligence base essential to enable them to operate effectively, particularly in managing the external environment of their IORs.

Table 25: Substantive Issues and Recommendations for Policy and Management of NHS-HE Relationships		
No.	Substantive Issues	
(i)	MPET Funding Model: Funding in/adequacy closely linked with continual susceptibility to exogenous shocks impacting overall NHS recurrent budgets	
(ii)	Student recruitment and student retention: Funding sustainability and affordability in the short-run for students, particularly mature students, and with implications for achievement of widening participation objectives in HE and diversity of workforce objectives in the NHS	
(iii)	Graduate retention in healthcare occupations employment: Funding sustainability and opportunity costs for graduates in the long-run	
(iv)	Ensuring a well functioning matching of HEI education outputs and NHS healthcare workforce requirements particularly when there is no cap on student numbers in HE	
(v)	Full coverage of HEIs' FEC: Funding sustainability for HEIs in short and long-run to maintain requisite levels of quality of education provision	
(vi)	Equitable and economically efficient allocations of risks and burdens in education contracts: Long-run sustainability of contracts, particularly from HEIs' standpoints	
(vii)	Appropriate allocations of responsibilities for placements: (a) maintenance and allocations of existing placement capacity (b) building additional placement capacity	
(viii)	HEIs IOR management effectiveness: (a) HEI management of the external environment of their NHS IOR (b) HEI building effective information systems to monitor and manage IOR risks and to develop effective strategies	
No.	Recommendations at Inter-sector Level	Rationale, Relevant Issues and Key Assumptions
1	The current M ₀ arrangements for the commissioning of NHS non-medical workforce education in England should be abolished.	To remove one of the sources of instability and threatened instability in NHS-HE IORs. Relevant issues: (i), (v)-(vii)
2	New arrangements for the commissioning of NHS non-medical workforce education in England based on the HEFCE contract framework should be established and commence in academic year 2017/18.	To improve the stability of NHS-HE IORs and the overall ISR. To bring arrangements for non-medical subject areas into alignment with the HEFCE funding and governance arrangements for HE subject areas generally. To alter the power balance between HEIs and their funders/education commissioners in non-medical subject areas. Relevant issues: (i), (v)-(viii)
3	The 'purchaser provider split' which was a feature of the M ₀ commissioning arrangements should be actively discouraged and replaced by an approach based on collaboration and cooperation between education providers, placement providers (i.e. NHS healthcare workforce employers) and students.	To encourage a more collaborative and co-operative approach between stakeholders in HEI-NHS-Student relationships. Relevant issues: (ii), (vi)-(viii)
4	For NHS non-medical education the HEFCE accountability framework should be augmented and reformed to include meaningful participation and representation of all of the relevant key stakeholders. In addition to the universities and HM government (through the HEFCE) key stakeholders should include healthcare workforce employers, healthcare workforce representatives drawn from the relevant occupational groups, students and professional bodies.	To help make the overall system for education provision and its funding more responsive to the needs of all stakeholders. Relevant issues: (ii)-(vii). Key assumptions: Adequately funded HE and NHS sectors to provide teaching, research and healthcare at the requisite levels of quality.
5	Taking the HEFCE current funding model as a starting point, a new funding model for nursing, midwifery and AHP education should be developed and implemented. The new model should be designed to improve on the HEFCE current model particularly so that it addresses the future needs for improved quality and innovation in education and ultimately for improved quality of patient care.	To ensure that the distinctive key characteristics of the non-medical subject areas are fully taken into account in the new funding model. E.g. The relatively greater proportion of placement/practice as a formal component of the curriculum, the longer in-year duration of non-medical programmes, and the relatively high proportion of mature students of the overall student body (c. 61% in 2014/15 - Source CoDH). Relevant issues: (ii), (iii), (v)-(vii)
6	The criteria which are chosen for evaluation of the funding model options will be important as will also be their relative weighting. As a starting point for that choice it is recommended that the criteria set out in Walsh and Jelfs (2015) are considered. These criteria are: Legal Compliance; Comprehensiveness; Funding Flexibility & Responsiveness (consisting of Healthcare Need and Demand, Student Recruitment and Retention, Widening Participation); Funding Adequacy; Funding Sustainability (consisting of Short-run Affordability, Long-run Sustainability); Efficiency (consisting of Cost Efficiency, Consistency and Transparency, Value for Money, Economic Efficiency); Perceived Fairness & Equity. For further definition of these criteria see Exhibit 6.	To help ensure future funding of HE is less short-termist, more sustainable, and more responsive to a range of strategic social, economic and political objectives. Relevant issues: (i)-(vii)
7	The unit of resource (UoR) for education provision and the level of support provided for students while on their programmes should be set at levels which are fair, equitable, realistic and financially sustainable for the relevant key stakeholders - especially for the education providers, for the students and for the graduates of the relevant programmes.	Relevant issues: (ii), (iii), (v). Key assumption: Adequately funded HE sector to provide teaching and research at the requisite levels of quality.
8	To help establish appropriate UoRs in the new funding model from the outset, a new zero-based costing exercise for pre-registration nursing, midwifery and AHP education should urgently be carried out in order to ensure that future decisions on funding levels and models are based on good evidence.	To provide a systematic and validated evidence base for UoR decisions, thereby to satisfy one of the requirements for external scrutiny and accountability in the use of public funds. Relevant issue: (v)
9	To enable the zero-based costing exercise to be completed effectively, a co-ordinated programme of consultation with all relevant stakeholders is initiated and managed to a conclusion. The consultation programme should include: the identification of funding model options; the identification of funding model evaluation criteria, their relative weighting, and a minimum rating on each criterion that would satisfy screening; the stakeholder evaluations of agreed model options and the validation of those evaluations; exploration of the articulation between funding models and workforce planning.	To ensure the new funding model is robust, thorough and has legitimacy and support from key stakeholders. Relevant issues: (ii), (iii), (v)-(vii)
10	There should be a rolling programme of review and adjustment of UoRs: (i) on an annual basis to take relevant inflation movements into account and (ii) on a five yearly basis to take significant movements in factors affecting costs to be taken into account, including new modes of delivery, and innovation in curricula.	To initiate a move away from the stop-go approach to UoR funding which has characterised government funding of HE teaching in England since the early 1980s. Relevant issue: (v). Key assumption: Adequately funded HE sector to provide teaching and research at the requisite levels of quality.
11	Key to the success of the new commissioning and funding arrangements recommended above will be the effectiveness with which relevant stakeholders acting both individually and in concert with each other, engage with the new processes of innovation, management and review. To help bring about and promote that effectiveness stakeholder education and participation programmes should be designed and implemented.	To encourage and help the development of effective stakeholder engagement in this policy area. Relevant issues: (ii), (iii), (v)-(viii). Key assumptions: Adequately funded HE and NHS sectors to provide teaching, research and healthcare at the requisite levels of quality.
12	Design and implementation of an HE-NHS oversight system to help ensure domestic security of supply of qualified manpower to non-medical occupations.	To ensure that non-medical occupations receive at the right time the appropriate quantity of newly qualified domestic manpower for non-medical occupations. Relevant issue: (iv)
No.	Recommendations at IOR and Organization Levels	Rationale and Relevant Issues
13	Risks and burdens in IOR contracts are reviewed overall and also on the dimensions of an IOR from the standpoints of each of the organizations in those IORs.	To improve managerial effectiveness in IORs. Relevant issue: (viii)
14	The overall length of the contract duration of an IOR should be specified so as to allow the organizations in the IOR sufficient time to make sustainable economic adjustment to situations in the event the contract is not renewed or extended beyond the specified duration date.	To ensure conditions of IOR contracts relating to duration, termination and compliance information are economically efficient, sustainable and fair for the organizations in an IOR. Relevant issues: (vi)-(vii)
15	Excepting under conditions of material breach, the minimum notice required for full or partial termination of an IOR contract should allow the organizations in the IOR sufficient time to make sustainable economic adjustment in the event of such termination being made. From the standpoint of many HEI's it is unlikely that such a notice period would be less than 2 years.	Ditto
16	The burdens associated with IOR contract monitoring and management should be set so as to avoid the creation of unproductive deployment of resources, including unnecessary duplication. The proposals made by UUK/CoDH to HEE on 29 th September 2014 could be taken as a starting point for simplification and streamlining of the current system of quality assurance monitoring.	Ditto
17	A distinction is made in IOR contracts between (i) the securing of placements from an already established placement capacity (ii) the establishing of new placement capacity and (iii) the maintaining of a placement capacity. (i) and (iii) should be a joint responsibility of the HEI and the placement provider; (ii) should be mainly the responsibility of the placement providers.	To help ensure that placement capacity and quality is at the required levels for NHS workforce development and is responsive to changes in the demand for such placements. Relevant issue: (vii)
18	Output floors should be specified in IOR contracts.	To smooth the impacts of short term shocks to the demand for education provision. Relevant issue: (iv), particularly to specialist occupations where small variations in output quantities can have a disproportionate impact on the adequacy of domestic supply levels.
19	HEIs individually review their level of resource dependency on their NHS IORs and develop strategies to manage that resource dependency.	To encourage HEI management proactively to manage the external environment of their organizations, particularly through a systematic focussing on their resource dependencies. Relevant issue: (viii)
20	HEIs should cost their IORs to FEC level, ideally using a validated actual cost methodology which also includes a realistic attribution of overhead costs.	To help ensure HEI management have the requisite information base to enable them to gauge the strength of their IOR resource dependencies and consequently help their management of those dependencies. Relevant issue: (viii)

Exhibit 6

Potential Evaluation Criteria for A New Funding Model

- (1) **Legal compliance:** model is lawful in accordance with current relevant legislation, case law and general principles of administrative law. The model takes full account of the equality and diversity requirements on disability; ethnicity; gender; age; sexual orientation & religion or belief
- (2) **Comprehensiveness:** The model should have the capability of dealing with the funding requirements of the whole system
- (3) **Healthcare Need & Demand:** model has funding flexibility and responsiveness to changes in need and demand for healthcare. The model is effective in taking account of future changes in workforce planning and the career frameworks of the relevant occupations and roles. The model incentivises innovation in healthcare workforce education and training
- (4) **Student Recruitment and Retention:** model should be compatible with objectives to recruit and retain good quality students up to the point of qualification.
- (5) **Widening Participation:** model should be compatible with objectives to widen participation in healthcare programmes by students from a wide range of backgrounds.
- (6) **Funding adequacy:** funding levels should be adequate to ensure that the objectives of the funding can be fully met. These objectives include ensuring education outputs are of the requisite quality so that future needs of healthcare, particularly for excellent patient care, can be fully met. This also means that funding levels should adjust smoothly on an agreed basis to changes in costs.
- (7) **Funding Sustainability – Short-run Affordability:** Funding obligations (levies; contributions) should be within the ability of the responsible funders to pay when required to do so. Funding obligations should be within the designated capital and/or revenue budgets or options available for the economic securing of any additional funding required.
- (8) **Funding Sustainability – Long-run:** funding obligations and the risks associated with those obligations should be sustainable for the responsible funders over the long-term. Ability to pay should not be impaired by potential exogenous shocks or events, the potential negative impact of which are estimated to fall within the parameters agreed in 'what if?' stress tests.
- (9) **Efficiency – Cost efficiency, Consistency & Transparency:** model should be cost efficient to administer and manage. This includes administrative feasibility and the clarity of rules to the relevant stakeholders. The rules of the model should also be interpreted and applied consistently over time.
- (10) **Efficiency – Value for Money (VFM):** model should enable adequate VFM as measured by the proportion of students initially registered on a programme that enter healthcare employment after graduation, relative to the eventual employment outcomes in comparable occupation specific education programmes.
- (11) **Efficiency – Economic :** model should promote economic efficiency e.g. eliminate of free riding; promote improvement in economically rational healthcare workforce planning ; avoid resource market distortions associated with funding of education and training through general taxation; improve resource mix in the delivering of healthcare
- (12) **Perceived Fairness and Equity:** the funding obligations arising from application of the model are perceived by the key stakeholders to be fair and equitable

Source: Walsh (2015)

9.6 NHS-HE Inter-sector Relationship Stability: Utopia or a Political Choice?

Implementation of the 20 recommendations made under scenario 3 is forecast to bring about a high level of stability in NHS-HE ISR and IOR. But scenario 3 relies on 2 key assumptions: adequacy of the funding of the NHS and adequacy of the funding of the HE sector. Why are these assumptions relevant? Are they important? Are they realistic?

Adequacy of funding of the NHS: as noted earlier, the education provision in non-medical programmes is distinctive in the proportion of students' time spent in practical placement. An essential part of the placement provision, apart from the placement itself, is the mentoring support provided to the students and in turn the support provided by the NHS organization to the mentor function. The history of placement provision from the outset of the NHS_HEI organizations collaboration in the 1990s has been a tension between the demands of the service and the resource requirement for mentoring and placement support. In times of NHS resource constraint this tension has manifested itself in declines in placement capacity and in the mentoring support provided (mentor staff generally have service duties as well and normally those service duties on average can account for 60% or more of the average time of a qualified mentor). Consequently when there are resource shortfalls on the NHS budget the consequences for placements have been direct: capacity has been lost due to ward closures and qualified mentor time per student has been cut back (and only made up through delegation of the mentor function to non-mentor staff).

Thus while some insulation of placements from service resource issues can be effected, in general a complete independence of the placement experience and provision from the demands of the service cannot be made. For that reason it will always be important for the quality of the education provision that the NHS itself is adequately funded (and adequately staffed with good organization infrastructure and support processes).

Adequacy of the funding of the HE sector: the adequacy or otherwise of the funding of HEI-NHS IORs has been a constant theme in this inquiry. The consequences of inadequate funding of IORs have included cross-subsidisation from the rest of the university. However, the relevance of funding adequacy can also go in the other direction. For example if a university is inadequately funded in its general teaching and research then it should not be expected that the non-medical IORs are shielded from the fall-out of such underfunding: HEI infrastructure will be curtailed, buildings not repaired when they should, 'soft' services (such as counselling) cut back or even abolished, hardship funds reduced etc. The general reputation of a university will also affect the relative quality of the students it can attract, affect the level and quality of support it can provide to its students and ultimately affect its student retention and progression.

Utopia or a political choice: given the relevance and potential importance of the key assumptions it might be objected that the recommendations being made are not realistic, that a utopia is being assumed. Additional to the extra funding involved in implementation of the recommendations (which is relatively small compared with the total public sector recurrent expenditure for England) are assumptions about sustainable funding linked to stability outcomes for two substantial sectors of the UK economy, the NHS and HE sectors. In this time of austerity it might be argued by some that 'priorities have to be set and hard choices have to be made; higher education in England cannot be expected to be insulated from the need for the nation to tighten its belt'. Notwithstanding the importance of non-medical qualified professional staff to the NHS - as pointed out by the CoDH and UUK these staff comprise c. 75% of the qualified professional staff in the NHS⁴⁹³ - it might also be argued that 'a need to reduce the public sector net deficit means that risks have to be taken and in the context of the HE-NHS ISR that means non-medical students have to be made liable for the full costs of their higher education'.

However, whose belt is to be tightened and to what end is ultimately a political choice and it is not at all clear that the right choices are currently being made by policy makers with regard to the funding of the higher education of non-medical students. Although the degrees of political freedom of non-government stakeholders in this matter may be relatively small there should still be opportunities for struggle in a quest to bring about a more equitable and sustainable distribution of resources with better outcomes for students, graduates, patients, HE and NHS organizations. CoDH and UUK are continuing at this time (February 2016) to negotiate with the HEFCE for a sustainable UoR in non-medical education and for safeguards to be devised and implemented in regard to widening participation and the needs of mature students. It would be helpful in their efforts in these areas if they were supported by other stakeholders representing the NHS employers, NHS professional staff, students and graduates.

⁴⁹³ CoDH/UUK (June 2015)

10.0 Introduction

In Table 26 below is a summary of key issues covered in the inquiry, claims made in the literature and in this dissertation about those issues, and recommendations for further research to be carried out. Reflecting the structure of the dissertation and the sequence in which the argument was developed these issues, claims and recommendations have been grouped into five categories: (i) Approach (ii) Theory (iii) Concepts and Methodology (iv) Empirical and (v) Critique.

Caption to Table 26

- ‘Research Key Issues’ are those issues which were identified in the inquiry as important. The definitions of issues 1-3, 5 and 9 were taken directly from the literature. Issues 6 and 7 were defined by the writer.
- ‘Claims in the literature’ are brief summaries of the main points made in the relevant literature.⁴⁹⁴
- ‘Claims in the inquiry and contribution’ are those made by the writer and are of three types:
 - Claims (1 and 5) which are in support of claims previously made in the literature
 - Claims (7 and 8) which are based on, but at the same time go beyond previous research
 - Claims and contributions (2, 3, 4, 6 and 9) which are made only by the writer and are based on the findings and conclusions of the inquiry.
- ‘Recommendations for further research’ are made in respect of most of the claims made, reflecting in part the exploratory nature of the inquiry and the lack of previous research into M_G . Some of these recommendations are prompted by the single case history focus of the inquiry and an implication of this that further research should be carried out so that explanations about the in/stability of IORs generally under conditions of M_G can be validated.

⁴⁹⁴ Given (i) the key issues listed here range across many categories, from ‘Approach’ to ‘Critique’ (ii) the lack of previous empirical research into M_G and (iii) the interdisciplinary nature of the inquiry, then references to ‘the literature’ are not to a single body of literature on a single subject but to different literatures on subjects which have often been regarded as belonging to separate, non-integrated, academic disciplines and traditions.

Table 26: Research Key Issues, Claims, Contribution and Recommendations for Further Research				
Research Key Issues	Claims in the Literature	Sources of Claims	Claims in the Inquiry and Contribution	Recommendations for Further Research
APPROACH (CHAPTER 2)				
1 What is the potential usefulness of historical institutionalism (HI) approaches to explaining radical institutional change?	HI approaches cannot be used to explain radical endogenous institutional change. The opposite claim has also been made.	HI cannot be used: Hay (2006); Peters (2012). HI can be used: Mahoney and Thelen (2010)	The claim by Mahoney and Thelen (2010) viz. that using a power perspective, an HI approach can be used to explain radical endogenous as well as exogenous institutional change, is endorsed in the dissertation. Further supporting argument for this claim is presented in Chapter 2.	Further case research at micro-institutional level (e.g. IORs) should help further to develop HI approaches to explaining endogenous radical institutional change.
2 Challenge in using an HI approach: assuming social constructionism ontology and non-deterministic historic dependence processes, how can/should relations between agents be conceptualised?	HI approaches can be formulated to give greater prominence to agency.	Mahoney & Thelen (2010); Bell (2011)	Theoretical and conceptual frameworks were developed in the inquiry which brought together exogenous and endogenous institutional events, historic dependence processes, IOR agency and feedback/structuration (Chapter 2, Figures 1 and 2; Chapter 3, Figure 3)	Types of HD processes in the inquiry included 'initial conditions', 'founder', 'burden of history' and 'forgetting'. Further research where other types of HD processes were involved e.g. 'increasing returns', should help further to develop appropriate theoretical and conceptual frameworks for an agent-centred HI approach.
THEORY (CHAPTER 2)				
3 What is the potential usefulness of Resource Dependence Theory (RDT) to explaining IORs?	RDT has potential to be extended from studies of factors impacting the incidence of mergers and acquisitions to research into the creation and sustaining of all forms of IORs e.g. long term contracts, strategic alliances	Casciaro and Piskorski (2005); Xia (2011)	RDT was used in the inquiry to explain the origins, outcomes and stability impacts of a long term contract-based IOR (Chapter 6, Explanations A and B)	
4	RDT has potential to be extended to include a time dimension and to encompass structural sources of power	Huxham and Beech (2008)	In the inquiry, RDT was placed within an overall HI approach to include a time dimension. The Casciaro and Piskorski framework of Mutual Dependence and Power Dependence was adapted to incorporate market structures as a source of the relative power of the participants in a dyad such as an IOR (Chapter 2, Figure 1). RDT within an HI approach was operationalised in the inquiry through a combination of thick description, and the development of interpretations and explanations using structured qualitative analysis and narratives. The use of power games (with affinities with a Foucauldian theory of the exercise of power) as a framework for analysis of agency at a micro level of events was a distinctive part of the methodological approach (Chapter 6).	The use of RDT within an HI approach could be extended to research into other types of IORs such as strategic alliances and joint ventures. In the inquiry a power perspective which focussed on 'power over' concepts of power was used. However, IORs can have within them a range of relations between the IOR organizations, from cooperation to collaboration to conflict. To encompass this range of relations and also the many different types of IOR, the power perspective could be developed so that simultaneously with 'power over', 'power to' concepts could also be used. This is possible if the IOR is defined into sub-dimensions so that for example co-operation between the IOR organizations - 'power to' - might be the reality on some sub-dimensions while conflict - 'power over' - might be the reality on others.
5 Does the nature of gradual institutional change put a limit on the potential scope of that change? e.g. Can such change ever be transformational?	Gradual institutional change can be brought about by agents operating within the relevant institution, and range in type of change from incremental change to transformational change. Key enabling factors for agents to bring about change are their powers of veto, their degree of autonomy and discretion in the performance of their roles and the levels of ambiguity within the institution in regard to the interpretation and enforcement of the rules.	Streeck and Thelen (2005); Mahoney and Thelen (2010);	Findings of the inquiry were consistent with factors identified by Mahoney and Thelen (2010) as enabling different types of gradual endogenous institutional change to be brought about (e.g. power of veto and exercise of discretion in power games 2 and 4, Chapter 6). As Mahoney and Thelen had also suggested, those same factors might enable dominant actors to maintain a status quo e.g. through 'layering' as much as to change it (e.g. see power games 1 and 4, Chapter 6, where through 'layering' the GM was able to maintain the M ₀ institutional arrangement as well as to strengthen its position as the dominant actor).	Mahoney and Thelen (2010) suggested that research be carried out into types of dominant actor which might be associated with different types of institutional change. Building on the theoretical framework and concepts developed in this inquiry it is suggested a focus for such research could be GMs, their institutions and institutional contexts. However, it is also suggested here that 'struggle' against or/and the compliance with such dominance by other actors is also part of such research (perhaps via the analysis of 'power games') particularly so that the contingency inherent in social action is also taken into account.
CONCEPTS and METHODOLOGY (CHAPTERS 2 AND 3)				
6 The usefulness of concepts of IOR stability which have been developed in the literature	Concepts of IOR stability in the literature have tended to (i) uni-dimensionality e.g. proof an IOR is 'stable' has been equated with its continued existence; proof of the instability of an IOR has been equated with its termination (ii) neglect or place too little emphasis on either dimensions of time or/and dimensions of risk e.g. Yan and Gray (1994); Inkpen and Beamish (1997); Xia (2011)	Walsh (2016)	In the inquiry a multi-dimensional concept of IOR stability over time was developed which incorporated dimensions of risk and time. The concept of IOR stability was defined from the standpoints of the organizations in an IOR (Chapter 2). The concept was grounded in the practices of the IOR studied in the inquiry and operationalised on 14 dimensions (Chapter 3).	It is suggested that more valid understandings and explanations of IOR stability would be obtained by research which used multi-dimensional concepts of IOR stability which incorporated dimensions of time and risk from the standpoints of the organizations in the IOR.
EMPIRICAL (CHAPTERS 4-6)				
7 There is relatively little evidence about the use of power and its consequences in monopsony; internet searches failed to reveal any published evidence relating to the use of power and its consequences in government monopsony (M ₀)	Monopsonist will extract all economic rents from its suppliers	OECD (2008); Blair and Harrison (2010); Ashenfelter et al (2010); Hirsch et al (2010); Ransom et al (2010)	The findings in the inquiry supported the claims of previous research which had been made about the expropriation of economic rents by a monopsonist (in the case of the enquiry by a government monopsonist (GM) - see findings about unstable ('U') and threatened instability ('TRI') outcomes on dimensions of the IOR in Chapter 5. The inquiry went beyond previous research which only focussed on the outcomes from the operation of a price mechanism, to show that it was the exercise of power by the GM in combination with the resource dependence of the supplier (MU) which brought about the actual outcomes on economic rents in the IOR (Chapter 6).	The empirical evidence in the inquiry related to a single case history of an IOR in a single M ₀ . For robust generalisations of the conclusions reached in the inquiry to higher institutional levels - the M ₀ and the HE-NHS inter-sector levels - further research would be needed. This would include additional case histories in the M ₀ of the inquiry and in other M ₀ s in HE-NHS inter-sector relationships in non-medical education.
8	Depending on the inelasticity of the supply curve a monopsonist may extract quasi rents from its suppliers	Stucke (2013)	The findings in the inquiry supported the hypothesis that under some conditions the monopsonist could extract quasi rents from a supplier (Stucke 2013; see also Chapter 5, stability impacts on dimensions 10 and 12). Going beyond current theory about monopsony, a further implication of findings in the inquiry is that due to accommodating responses from MU, such as cross-subsidy and cost reduction, the extraction of quasi rents by the GM could continue indefinitely (Chapter 6).	
CRITIQUE (CHAPTER 9)				
9 How should conflict in principal-agent relationships such as in long term contract-based IORs, be managed so that sustainable stable outcomes from the standpoints of all relevant stakeholders are brought about?	(i) In Principal-Agent Theory (PAT) it is asserted, given certain assumptions, that in general the most efficient contractual solution to the conflict inherent in principal-agent relationships will be found via the price mechanism. (ii) Power and its exercise are ubiquitous in all social interactions. (iii) Institutions are distributional instruments laden with power implications. (iv) There is no such thing as the 'free market'. Markets are political artefacts, evidenced by their institutional context and by the regulations essential to their existence and functioning. (v) Asymmetries of power in market interactions can have significant distributional implications.	(i) Eisenhardt (1989) (ii) Foucault (1983, 1988), Lemke (2000), Gaventa (2003) (iii) Mahoney and Thelen (2010), Hall (2010) (iv) Chang (2010) (v) Walsh (2016), Ashenfelter et al (2010), Stiglitz (2001) et al	A conclusion of the inquiry was that the U and TRI stability impacts in the IOR were the result of the exercise of power by the GM and the power dependence responses of MU. Price was found to function as a dependent part of these dynamics of power, not as a mechanism which governed those dynamics. From the perspective of MU the conflict between it and the GM over the distribution of economic and quasi rents was never resolved (as would be the case if as assumed in PAT, the price mechanism functioned as the governing mechanism in the IOR) - a <u>sustainable</u> solution for the IOR was not brought about, i.e. a solution which was not dependent on either cross-subsidies and/or on an unusual restraint on payments to factor inputs (e.g. payments to MU for MU staffing costs). Thus the findings and conclusions of the inquiry are that it was the power relations in M ₀ , not the price mechanism, which determined market outcomes including price outcomes. A further contribution of the inquiry is a critique of M ₀ as a means of managing public sector IORs (Chapter 9).	Given the use of monopsony or near monopsony as a technique used in public sector management, the findings and conclusions of this inquiry potentially have relevance for future policy aimed at the management of the public sector (see Chapter 9). To follow this up, it is recommended that research on IORs and their in/stability over time is carried out in other areas of the public sector, particularly education and healthcare where the government or its agencies act as a monopsonist or near monopsonist.

10.1 Further Research Recommendations: Development of an HI - Power Paradigm

The recommendation to incorporate a time dimension is common to all of the recommendations for further research set out in Table 26: recommendation 1 is about focussing HI approaches at micro-institutional level to develop explanations of endogenous radical institutional change; recommendation 2 concerns the further development of an agent-centred HI; recommendation 4 involves the use of RDT within an HI approach; in recommendation 5 the use of power game analysis in regard to relationships over time between agents is suggested; in recommendation 6 it is proposed that concepts of stability in IOR should include dimensions related to time or which imply time as a dimension (such as risk); recommendations 7 and 9 also involve a time dimension whether by means of constructing case histories or by the use of 'stability over time' concepts.

Following Mahoney and Thelen (2010) it is also recommended that HI approaches to micro-institutional research (e.g. at IOR level) are used in conjunction with a power distributional perspective. In such research the use of multi-dimensional concepts of institutional phenomena such as the concept of IOR in/stability over time used in this inquiry may help to develop deeper insights and more valid explanations of a range of micro-institutional outcomes whether such outcomes function to maintain an apparent status quo or are the precursors to transformational change.

10.2 Further Research Recommendations: Contribution, Critique and Accountability

As stated in Chapter 3, the concept of IOR in/stability over time which was developed in this inquiry was a normative concept; the criteria of what was 'stable' or 'unstable' were taken directly from each of the organisations in the IOR, inferred from their stated objectives and grounded in their practices in the IOR. In ascertaining and explaining the stability impacts in the IOR (in each of the 14 dimensions which were examined) there was an affinity in this inquiry with 'evaluation research'. The criteria of evaluation used in the critique in Chapter 9 were based on those used by the GM and MU in the IOR (risk apportionment, financial sustainability, quality and quantity of outputs). For the recommendations for policy further criteria were added, firstly to take account of the interests of other key stakeholders in HE-NHS inter-sector relationships and secondly to take account of the ubiquity of power and the reality of '*institutions as distributional instruments laden with power implications*'.⁴⁹⁵ These further criteria were drawn from previous research and policy prescriptions. However, for future policy formulation and implementation it is important that any set of evaluation criteria is deemed to be relevant and valid by all of the key stakeholders. For that reason it should be assumed that evaluation criteria such as those used in Chapter 9, would need to be reviewed, updated where necessary, validated and weighted.

There is also a matter of accountability: some of the further research recommended in Table 26, particularly recommendations 7 and 9 should help to provide greater transparency about the management of the public sector and the outcomes of such management. Greater transparency should, it is hoped, help towards the development of a practical and genuinely democratic accountability of the management of some of our important institutions.

⁴⁹⁵ Mahoney and Thelen (2010), pp 7-8.

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A.0 Introduction

I have been a general manager and general management consultant in the private and public sectors in England for 30 years. For the past 22 years I have had senior management level roles in Higher Education. Since 2013 I have been a Senior Policy Advisor to the Council of Deans of Health (CoDH). Prior to joining the DBA programme at Bath in 2004, my higher education had included an undergraduate degree in business studies, a taught postgraduate degree in sociology, and an MBA.

A.1 Summary

I believe that my DBA programme has been helpful to me in my management practice. Perhaps the most significant development has been to encourage me to develop a systematic focus on management of my organization's external environment. More generally the DBA programme has introduced me to a range of intellectual frameworks which have functioned to guide my management practice and which I also believe have helped me to manage intra-organisational change programmes more effectively.

In the second part of my DBA – the research inquiry – I learned some lessons about 'doing research'. These lessons related to (i) distinguishing levels of analysis (ii) scoping a research inquiry (iii) defining core concepts and (iv) the practicality of different approaches to data analysis

A.2 From Monitoring to Management of the External Environment of the Organization

Perhaps the greatest personal impact of my DBA journey was to stimulate a change in my approach to management. Prior to commencing my DBA, my management roles and practice had been focussed intra-organizationally. To the extent that the external environment featured in my management practice this was mostly in terms of monitoring that environment rather than seeking directly to manage it and influence the turn of events. However, in Part 1 of my DBA programme (2004-2011), I learned how HEIs could be regarded as highly open systems, with multiple stakeholders and with multiple objectives. As part of my DBA learning, the writings of Pfeffer and Salancik (1978, 2003) about the importance of managing the external environment of the organization were helpful in introducing me to a range of strategies that could be used by management and the relative appropriateness of those strategies in different contexts. That learning coincided with a time when the IOR began to be affected significantly by external events, including the NHS financial crisis of 2005 and the outcome of the BMP negotiations in 2009 (power game 2). I began to ask how I could influence that environment to the benefit of MU.

Consequently, in 2010, prompted by the combination of my DBA stimulated intellectual development and partly by a need to respond to threats from the external environment to the continued viability of the IOR for which I had responsibility, I included management of the external environment as a major part of my role at MU. A specific action I took in this was to initiate power game 3. In this game I found myself for the first time in my career in management taking a leadership role in managing the environment of the IOR in coalition with other organizations. That experience included working with management in those organizations in building a consensus about the need for change and the potential for combined action to bring about that change. Specific actions on my part included the educating of coalition members through the production and timely

sharing of information, the lobbying of external influencers (including an Associate Director of the HEFCE for London, Kent and the East of England who was also a member of HENSE) while at the same time maintaining an effective quality, level and timeliness of communications within the coalition. All of this seemed to function sufficiently well so that coalition members were happy to allow me to take a lead role on their behalf in negotiations with the GM (July and September 2010 in power game 3).

My current role with the CoDH is about helping the 85 member organizations of the CoDH to manage their external environment; I believe that my DBA journey has played an important part in equipping me to make a positive contribution in this role to the members of CoDH.

A.3 Intellectual Frameworks and the Management of IOR

The DBA journey has also been developmental for me at an intellectual level; the nature of consensus and the types and sources of power in organizations became topics of interest to me from my early days on the programme and have remained so since. Important influences on my intellectual and management development in the DBA journey included Lukes (1975), Morriss (2002), Emerson (1962), Casciaro and Piskorski (2005) and Mahoney and Thelen (2010). The insight that different relations of power, characterised as 'power to' and 'power over', can be present in an IOR on different dimensions of that IOR and how those relations might change over time was helpful. I believe in encouraging a greater flexibility in my thinking about practical problems in the management of collaboration.

A.4 Distinguishing Tactical and Strategic Outcomes and the Potential for Transformative Change

I learned to distinguish tactical outcomes such as particular negotiated outcomes on price (e.g. the non-implementation of the BMP in 2005 and 2006) from strategic outcomes where structures had been changed or were about to change (such as in the 2012 LEC regarding the future process of price determination in the IOR and in the M_G generally). More importantly perhaps, I learned to be alert to the different potential for enduring and transformational change which could result from those outcomes. A negotiated outcome on price might in one context bring about a temporary state (such as the outcome of the OBC negotiations in 2010) while in another context the outcome could have enduring consequences and signal a transformative impact on the IOR (such as from the 1996 price negotiations between MU and the GM). My researches into the MU-NHS IOR and the opportunity for critical reflection in the development of my thesis have been at the root of this learning – looking at outcomes from a time perspective and being able to assess those outcomes as either strategic or potentially strategic or as simply tactical has been directly influenced by the historical approach taken in my research.

A.5 Management of Intra-organizational Change Programmes

My HE management role during the time I was on part 1 of the DBA programme (2004-2011) included responsibilities for the design and implementation of three restructurings of University administrative staff. The DBA experience, including the DBA assignment tasks and interactions with student colleagues helped me, I believe, to manage those change programmes more effectively. For example, an influential part of my learning was the feedback I received on one of my early DBA assignments in which I was encouraged critically to reflect on a change programme which I had managed. I believe that reflecting about how the programme could have been better managed and what lessons were to be learned from the outcomes functioned to help me manage subsequent restructurings more effectively.

A.6 Lessons Learned about 'Doing Research'

A.6.1 Levels of Analysis and Focus of the Inquiry

At the beginning of the inquiry I defined the research problem as about the in/stability of monopsony in general; I expected that research into the in/stability of the IOR would become a means by which instability in monopsony could be evidenced and plausible explanations for that instability constructed. However, it subsequently became apparent that this way of conceptualising the research problem potentially confused three levels of analysis of in/stability which needed to be kept distinct:

- A macro level about monopsony generally
- An intermediate level about the particular monopsony within which the IOR was established and operated
- A micro level about the IOR of the inquiry.

I concluded eventually that the focal 'institution' of the inquiry should be the IOR and not an institution either at the intermediate or at the macro levels. An implication of this was that the findings of the inquiry and the explanations of those findings in so far as they might be relevant either to other IOR in the relevant monopsony or to monopsony generally, should be regarded as exploratory; further research at all levels of analysis would be required if wider generalisations were to be made. Thus the lessons learned here concerned the relevance and importance of different levels of analysis and that conclusions drawn in relation to one level of analysis might need to be redrawn when research was conducted at other levels of analysis.

A.6.2 Scope of the Inquiry

One of the main surprises to me was the extent to which the environment of the IOR needed to be taken into account in the interpretation and explanation of IOR in/stability. As the importance of the environment of the IOR to the in/stability outcomes of the IOR became more apparent, i also began to appreciate more fully the distinctions that needed to be made between the different levels of analysis. An important outcome in the inquiry of this understanding was the IOR itself came to be defined as the focal institution for the inquiry. It also became apparent that if the IOR outcomes were to be adequately explained then the relations between the IOR and its relevant institutional contexts at both intermediate and macro levels, also needed to be understood in depth. The development of the latter understandings did however give rise to an unforeseen benefit, which was that it became easier subsequently to make specific suggestions about a future research agenda, particularly if the latter was aimed at instability issues at intermediate as well as at macro levels.

A.6.3 Definition of Concepts

Here the lesson learned was about the need for precision in defining core concepts of the inquiry and, in the case where those concepts were multi-dimensional, the advantages for subsequent analysis in defining carefully and consistently the relations and potential relations between those dimensions. For example:

- The recognition that the intermediate institutional context of the IOR was government monopsony, not monopsony generally was important to arriving at an appropriate appreciation of the impact on the IOR of its intermediate institutional environment
- Specifying the relations between the 14 *dimensions* of the concept of IOR stability was an important step in the inquiry along the road to my gaining a fuller appreciation of the potential relevance of risk as an overall factor relevant to IOR in/stability, both in its description and subsequently in its explanation.

A.6.4 Practicality of different approaches to data analysis

When initially the analytical framework for the inquiry was designed and prior to any processes of data categorisation, data selection and data reduction had been carried out, it was expected that data analysis would at the outset involve the coding of data according to some predefined conceptual scheme. Such an approach had been set out by the writer in his DBA assignment 4. However, it became apparent subsequently that this approach would have been impractical: potentially hundreds of thousands of data items would have required coding, and to safeguard against validity threats arising from erroneous coding of data from such a large dataset, considerable resources would have been required.

A simpler more robust analytical procedure which was congruent with taking a more holistic approach to historical analysis was available. Thus rather than an approach to data analysis which attempted to start at the particular datum level, the approach adopted was to start at a higher level, viz. at the level of the typology of the IOR and proceed by way of a grounded theory approach to develop operational concepts for the theoretical framework that had been constructed. The key processes involved in data analysis then became the categorisation of the data rather than the coding of all of the data elements and associated with this the construction of descriptive historical narratives which bound the relevant data together (both in place and in time) and in effect also guided data selection and data reduction in the construction of those accounts. It was important that the data categorisation process had regard to a descriptive sense of the data rather than be based on an atomistic level of data analysis where whatever 'meaning' in the data had once existed would have been distorted. In effect, the sense to be made of the data from a holistic standpoint could have been lost because the analytical lenses had initially been set to focus at low a level, viz. on the millions of the individual data elements).

One of the benefits to the inquiry of taking this more holistic approach to data analysis was that it became easier to develop interpretations of the IOR which took account of changes occurring in its intermediate and macro environments, i.e. at higher levels of analysis. Stories became easier to construct about that environment, its origins and historical development. It was also found that this holistic approach was amenable to strategies to mitigate the attendant validity threats to the interpretations and explanations developed in the inquiry.

Annex B

The Higher Education - NHS Relationship A History; Alternative Futures

Donal Walsh
Council of Deans of Health

25th June 2015

Overview

- Introduction
 - Current Arrangements
 - Current Issues
- A History
 - Origins
 - Development
- A Case History
 - Scope and Methods
 - Methodology
 - Findings and Theory
 - Explanations
 - Overall Conclusion
- Alternative Futures
 - Issues
 - Existing Regime
 - Scenario
 - Recommendations
 - New Regime
 - A New Funding Model
 - Recommendations

How & Why did these Issues arise?

What are the Implications for Policy?

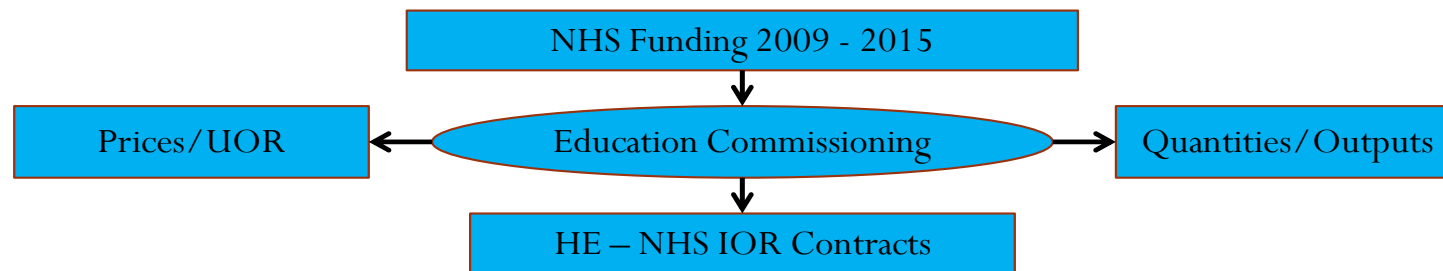
Introduction: Current Arrangements

- Overall Context
 - NHS Healthcare Needs and Political Priorities
 - NHS Workforce Planning, Demand & Supply
- HE – NHS inter-sector relationship (ISR)
 - Contract-based inter-organizational relationships (IORs) between HEE and HEIs
 - Contracts
 - Outputs & Placements
 - Prices
 - Formal Oversight of ISR; Communications and Reviews of IORs
 - HENSE, UKHEAC; LETBs, Contracts Strategic Reviews, Pricing Reviews (BMP)

Articulation of the Overall Context with the
HE – NHS ISR and its constituent IORs is effected
mainly by the processes of funding & commissioning

Introduction: Current Issues

Macro-economic events & policies combined with continuing rise in need & demand for healthcare have functioned to threaten the stability of HE – NHS IORs on key dimensions ...



Consequences

- BMP Shortfall on HEI Standard FEC from 2005/07
- Quantities Shortfall on NHS Demand or Need from 2005/06
- HEIs IOR Contracts Risk Burdens: Increase in London from 2005/06 nationally from 2016

Forecast to 2020

Increasing Shortfall
Continuing Uncertainty
HEIs' Risk Burdens Increasing

What impact will instability &/or threatened instability on HEI – NHS IORs have on overall stability of HE – NHS ISR?

A History: Origins of the ISR

- Project 2000
 - Evidence-based practice
 - Rebalancing the needs of service and the requirements of healthcare workforce education
 - Schools of Nursing to Colleges of Health
- NHS Reforms
 - 'Working for Patients' (1989 White Paper) – the internal market
 - NHS and Community Care Act 1990
- Working Paper 10 (WP 10, 1989)
 - Creating a level playing field for the internal market
 - Centralisation of education funding
 - Regional self-sufficiency
 - Education demand to become employer-led
- Principle of Contractual Funding in the English Higher Education System
 - Education Reform Act 1988; Secretary of State letters to Chairs of UFC and PCFC – October 1988

A History: Development of HE – NHS IORs

- Implementation of WP 10 1993 - 1997
 - Education contracts
 - Tendering & mergers – Colleges of Health & HEIs
- NHS Reorganisations relevant to Education Contracts
 - RHAs → NHS Executive (1996)
 - Employer led consortia (c. 1997/8)
 - Workforce Development Confederations (2000) → Strategic Health Authorities (SHAs) (2002/4)
 - SHAs reorganisation (2006)
 - Health Education England (HEE) (2013)
- ‘National Contracts’
 - National Standard Contract (2006)
 - National Standard Education Framework Agreement (2010)
- The National Benchmark Price (‘BMP’)
 - National Audit Office (2001) → JM Consulting (2002/03) → DH (2004) → Implementation 2005/07
 - Reviewed 2007/08
 - Negotiations: 2004; 2008; 2009; 2013/14

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Scope and Methods

- Boundaries
 - Reference Period: 1995 – 2013
 - Institutional & Organisational Environment: DH; NHS Organisations; NMET, MPET/NMET; UKCC/NMC; HEFCE; UUK; UKHEAC; HENSE; CoDH; LDHG; MU
 - 'Product' Scope: Pre-registration and Post-registration Nursing & Midwifery
- Relative significance over the reference period to MU and the GM
 - c. 7% - 11% of MU students
 - c. 10% - 15% of GM commissions in relevant products
- Methods
 - Secondary data; MU historical archives; IOR contracts, performance & strategic reviews, student numbers; planning & policy documents – IOR, GM & MU levels; formal communications – GM & MU, MU internal
 - Access: MU – full; GM – public domain mainly but also communications with LDHG; Sector & inter-sector levels – public domain plus some privileged access especially via CoDH and LDHG
 - Overall method: a diachronic case history; a preliminary c. 90k descriptive history was produced, validated by member checks, and then used as resource in the production of the c. 110k case history dissertation
 - Validity threats identified & mitigated
 - Threats: (i) constructs validity (ii) data limitations (iii) researcher bias (iv) reactivity
 - Mitigation strategies: (i) use of established theory; use of grounded theory for operational constructs (ii) production of 'thick descriptions' & drawing on expertise of researcher (iii) member checks of the descriptive history and the dissertation (v) expert academic review

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Methodology (i): concepts of IOR stability, instability, and threatened instability were defined:

- IOR stability over time ('S') was defined as a condition in which an IOR maintains a sustainable performance from the standpoints of the organizations in the IOR. This is a normative definition which assumes S is important to the organizations in the IOR; external funding from the taxpayer of HE – NHS IORs implies that S is also important to other relevant organizations and agencies but which are external to the IOR. Other assumptions in this definition of S:
 - IOR performance risks, and burdens associated with those risks, are allocated sustainably between the organizations in the IOR and managed by them.
 - Demand and supply in the IOR continually adapts to changes in the environment of the IOR, e.g. through changes in demand or by processes of cost reduction or by innovation in production technology.
 - Adverse shocks to the IOR whether these arise exogenously to, or endogenously in the IOR are absorbed in the IOR so that conditions conducive to a sustainable performance of the IOR from the standpoints of the organizations in the IOR are maintained.
- An IOR is in a range of instability ('U') when its sustainable performance and/or the sustainable performance of the organizations in the IOR are impaired and there is a significant likelihood that impairment will continue.
- An IOR is entering a range of instability ('TRI') when there is a significant threat to the impairment of its sustainable performance and/or to the sustainable performance of the organizations in the IOR over time.

257

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Methodology (ii): the concept of IOR stability was defined on 14 *dimensions*; these are summarised below.

These *dimensions* and their operationalisation were grounded in the empirical reality of the IOR.

For further details please see inserts - slides 10 and 11 (Tables 1 and 2).

1. *Duration*
2. *Termination*
3. *Compliance – Information; Management & Review*
4. *Placement Responsibilities*
5. *Output Specification*
6. *Output Floors and ceilings*
7. *Size of Short Run Variability of Output Quantities*
8. *Trends in GM Demand for Output Quantities*
9. *Basis of Price – Innovation*
10. *Basis of Price – Full Economic Costs*
11. *Basis of Price – OBC Risk*
12. *Actual Price v MU's Actual / Planned FEC*
13. *IOR Performance – GM standpoint*
14. *IOR Performance – MU standpoint*

TABLE 1: IOR Key Outcomes: <i>Dimensions</i> , Definitions & Sources, Relation to IOR Stability				
IOR Key Outcomes <i>Dimensions</i>		Definitions of <i>Dimensions</i>	Sources of <i>Dimensions</i>	Relation to IOR Stability
1	<i>Duration</i>	The IOR contract period	IOR Contracts 1995 to 2013 - Archive 32-39	Security of contract for the IOR participants; perceived risks of IOR future sustainability
2	<i>Termination</i>	Ways in which IOR contract could be ended and rights of IOR parties thereto	IOR Contracts 1995 to 2013 - Archive 32-39	Security of contract for the IOR participants; perceived risks of IOR future sustainability
3	<i>Compliance - Information; Management & Review</i>	Information requirements: frequency, content; Management & Review: content & processes of contract management	IOR Contracts 1995 to 2013 - Archive 32-39	Affects: (i) level of IOR transaction costs and who bears these (ii) effectiveness of contract management (iii) sustainability of IOR performance
4	<i>Placement Responsibilities</i>	Responsibilities of IOR parties for securing, planning, organisation and management of placements	IOR Contracts 1995 to 2013 - Archive 32-39	Affects: (i) degree of fit between IOR participants responsibilities and potential for control of outcomes (ii) output quality (iii) adjustment capability of supply to demand
5	<i>Output Specification</i>	<i>Specification of the education product/service</i>	IOR Contracts 1995 to 2013 - Archive 32-39	Feasibility of output requirements and relevance to end users/markets; output quality; adjustment capability of supply to demand
6	<i>Output Floors and Ceilings</i>	Limits to annual changes (+/- %) to new commissions quantities	IOR Contracts 1995 to 2004 - Archive 4, 32	Adjustment capability of supply to demand; sustainability of financial performance of IOR participants
7	<i>Size of Short Run Variability of Output Quantities</i>	Year on year variations in output quantities by GM	IOR Contract Documentation 1995 to 2013 - Summary Data in Archive 9	Sustainability of IOR participants' financial performance; adjustment capability of supply to demand
8	<i>Trends in GM Demand for Output Quantities</i>	Moving 3 year overall totals of output quantities demanded by GM	IOR Contract Documentation 1995 to 2013 - Summary Data in Archive 9	Sustainability of IOR participants' financial performance; adjustment capability of supply to demand
9	<i>Basis of Price - Innovation</i>	Price includes rewards for product/process innovation and/or compensates supplier for engagement in innovation processes.	IOR Contracts Documentation 2009 to 2012 - Archive 65	Adaptability: (i) of IOR to environmental change affecting output requirements (ii) of supplier to new norms of efficiency.
10	<i>Basis of Price - Full Economic Costs (FEC)</i>	Nature of the price for outputs (contract price, unit price) and the principles on which it was based	IOR Contracts Documentation 1995 to 1999 - Archive 27 'NHS History 4 & 5'; BMP Documentation 2003-2009 - Archive 28-30, 66	Alignment of price with economic value of IOR outputs and/or with supplier FEC levels; Potential for the sustainability and variability of IOR participants' financial performance
11	<i>Basis of Price - OBC Risk</i>	Relative financial risks relating to student attrition borne by the IOR parties	GM & MU OBC presentations (2010); History of OBC negotiations between GM & LDHG - Walsh (2013), Archive 85	Sustainability of IOR participants' financial performance; IOR performance on outputs quality and quantity
12	<i>Actual Price v Supplier's Actual/Planned Full Economic Costs (FEC)</i>	Actual prices paid for outputs relative to supplier's actual/planned FEC	IOR Contracts Documentation 1995 to 1999 - Archive 27 'NHS History 4 & 5'; MU NHS Contract Reviews - Archive 19-22	Sustainability of: IOR participants' financial performance; IOR performance on outputs quality. Continuity and quality of the IOR suppliers' resource inputs
13	<i>Performance (i)</i>	IOR performance assessments on criteria used by NHS Commissioner and external regulators	GM IOR performance assessments; assessments of output quality by external regulators - Archive 13-15	Perceived adequacy of IOR historic and current performance
14	<i>Performance (ii)</i>	IOR performance assessments on criteria used by supplier	MU assessments of historic and current IOR performance - Archive 19-25	Perceived adequacy of IOR historic and current performance

Key Outcomes Dimensions	Stability Impact Indicators	Stability Indicator Type: Performance Risk (R); Performance Outcome (O)	Stability Impact			Underlying Assumptions, Sources of Indicators & Indicator Measurements	Rationale for Stability Indicator Measurements	Relation between Dimensions & Indicators
			S	TRI	U			
1 Duration	What was remaining duration of contract? x years	R	x≥2	x<2	x<2	If x<2: one party has risk of costlier exit from the IOR. IOR 1995-1999 contracts stipulations set as stability baseline - minimum remaining duration was 2 years at time of annual renewal of these contracts.	2 years minimum required by supplier to establish substitute activity to maintain outputs & cover fixed costs.	13; 14
2 Termination	Did parties have equal rights to terminate? Excepting breach, notice needed ≥ 2 years? Y/N	R	Y	N	N	If N: ditto.	Ditto.	13; 14
3 Compliance - Information; Management & Review	Was there Increased/increasing burden of compliance requirements compared with burden at beginning of participation in the IOR? Y/N	R	N	Y	Y	If Y: supplier costs of compliance increase with risk of negative returns from IOR to supplier. IOR 1995-2004 contracts compliance burdens set as stability baseline.	Compliance burdens under 1995-2004 contracts similar to compliance burdens under HEFCE contracts and norms for HE sector.	12; 13; 14
4 Placement Responsibilities	Were responsibilities of parties aligned with their respective abilities to control outcomes? Y/N	R	Y	N	N	If N: consequential risk of negative impact on output quality and/or quantity. Under IOR 1995-2004 contracts buyer and supplier had joint responsibility for placements - these set as stability baseline.	Ratio of academic provision (controlled by supplier) to placement provision (controlled by buyer/employers) for pre-registration education was equal by time and input.	13, 14
5 Output Specification (OS)	Was timescale allowed to implement fundamental change to OS ≥ minimum duration of current education programmes? Y/N	R	Y	N	N	If N: risk that supplier output will fail to satisfy specification or regulatory body requirements. Notice given by NMC for implementation of 2010 Standards set as stability baseline.	Education provision specification was largely controlled by the regulatory body (the UKCC/HMCC).	13; 14
6 Output Floors and Ceilings	Were floors and ceilings to annual output quantities demanded by the buyer stipulated within the contract? Y/N	R	Y	N	N	If N: risk that supplier will be unable to respond effectively to short run changes in buyer demand. IOR 1995-2004 contract stipulations set as stability baseline.	Under IOR contracts buyer notified demand for output quantities on an annual 'call-off' basis. Increases or decreases in demand relative to previous years' demand could if outside of specified limits have been impossible for supplier to meet, either logistically or economically.	12; 13; 14
7 Size of Short Run Variability of Output Quantities	Were annual output quantities demanded by IOR buyer within supplier's stated capability to adjust supply to demand? [Stipulation in IOR 2000 contract (>+/-5%)] of overall output quantities used as proxy.] Y/N	R	Y	N	N	If N: risk that supplier unable to respond effectively to changes in buyer outputs demand. IOR 2000-2004 contract stipulations set as stability baseline.	Ditto.	12; 13; 14
8 Trends in GM Demand for Output Quantities	Was the moving 3 year total of output quantities demand of IOR buyer in decline? Y/N	O, R	N	Y	Y	If Y: risk that total benefits to supplier from IOR reduce due to reduction in buyer demand; risk that some supplier fixed costs no longer covered. Direction of change of 3 year trend in buyer output demand set as stability baseline.	Specialised nature of supplier fixed costs placed limits on their potential deployment to alternative uses.	12; 13; 14
9 Basis of Price - Innovation	Did price allow for supplier costs associated with product or process innovation?	R	Y	N	N	If N: lack of incentives for supplier to innovate increases risk supplier becomes relatively inefficient and/or ceases to respond effectively to changes in buyer requirements or in wider environment. 'Quality Premium' introduced via 2009 BMP agreement set as stability baseline.	Assumed that at least some innovation requirement would exist given continuing change in requirements of non-medical roles associated with changes in technologies of patient care.	12; 13; 14
10 Basis of Price - FEC	Was unit price based on principle that price should be no less than ≈ standard FEC of supply of outputs demanded? Y/N	R	Y	N	N	If N: risk that IOR will become financially unsustainable for the supplier. FEC as defined in IOR 2012 contract set as stability baseline.	Norm for HE sector was that full costs of education providers for teaching programmes would be met e.g. HEFCE remit. Norm was implicit in the original tender round for IORs in the the M ₀ and explicit from 2003 under the BMP concept.	12; 13; 14
11 Basis of Price - OBC Risk	Did/will supplier, without equivalent compensation in price bear more or all of the financial risks relating to student attrition? Y/N	R	N	Y	Y	If Y: IOR supplier bears some/all of the financial risks relating to student attrition without equivalent compensation in price. If N: financial risks relating to student attrition are equally borne by IOR buyer and supplier. OBC (months) as per IOR 1995-2013 contracts & BMP concept 2003-2013 set as stability baseline.	Incidence of attrition believed to be mostly outside of the direct control of both the supplier and the buyer (some evidence to support this assumption). Consequently it was assumed that allocation of financial risks associated with attrition would be equally allocated when price was set on an OBC (months) basis.	12; 13; 14
12 Actual Price v Supplier's FEC	Were actual prices at least equal to supplier's actual or planned FEC? Y/N	O, R	Y	N	N	If N: ceteris paribus, in long run it becomes uneconomic for supplier to continue engagement in the IOR. See dimension 10 above for definition & source of definition.	As for IOR dimension 10.	6-7; 8-11; 14
13 Performance (i)	Were ratings of IOR and supplier performance by IOR buyer and external regulators at 'satisfactory' or better? Y/MR/N	O, R	Y	MR	N	If MR: Mixed ratings e.g. some of IOR buyer and/or regulator requirements not met N: supplier failing to meet IOR buyer and/or regulators' key requirements. Buyer & regulator requirements set as stability baseline.	IOR buyer assessments of IOR performance assumed to indicate stability state of IOR from buyer's standpoint.	1 - 12
14 Performance (ii)	Were ratings of IOR performance by supplier at 'sustainable' or better? Y/MR/N	O, R	Y	MR	N	If MR: Mixed ratings e.g. of quality and financial performance. If N: supplier failing to meet key IOR requirements. Supplier requirements set as stability baseline.	IOR supplier assessments of IOR performance assumed to indicate stability state of IOR from supplier's standpoint.	1 - 13

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Findings: The in/stability of the IOR on each *dimension* for each year of the reference period

TABLE 3(i): IOR Stability over Time - Assessments of Impacts on IOR Key Outcomes *Dimensions*

Key: S = Stable; TRI = Threatening entry to range of instability; U = Unstable		Stability Impact over Time																
IOR Key Outcomes: COMPONENTS & Dimensions	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
CONTRACTS																		
1 Duration	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	S	S	S	TRI	TRI
2 Termination	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
3 Compliance - Information; Management & Review	S	S	S	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI
4 Placement Responsibilities	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
OUTPUTS																		
5 Output Specification	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
6 Output Floors and Ceilings	S	S	S	S	S	S	S	S	S	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
7 Size of Short Run Variability of Output Quantities	S	S	TRI	TRI	S	TRI	S	TRI	S	S	S	S	S	S	TRI	S	S	S
8 Trends in GM Demand for Output Quantities	S	S	S	S	S	S	S	S	TRI	TRI	S	TRI	TRI	TRI	TRI	TRI	TRI	TRI
PRICE																		
9 Basis of Price - Innovation	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	S	S	S	S
10 Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI
11 Basis of Price - OBC Risk	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
12 Actual Price v Supplier's FEC	U	U	U	U	U	U	U	U	U	U	U	U	U	U	?	?	S	S
PERFORMANCE																		
13 Performance (i)	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
14 Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI	TRI

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Findings contd.:

- The IOR tended to become less stable over time from the standpoint of MU; reductions in IOR stability occurred in *dimensions* of risk relating to the future performance of the IOR.

Table 9 Stability Impact Assessments of the IOR *Dimensions* 1995/96 – 2012/13

	<u>S</u>	<u>TRI</u>	<u>U</u>
1995/1996	10	3	1
2004/2005	8	5	1
2005/2006	6	7	1
2007/2008	5	8	1
2008/2009	5	8	1
2012/2013	6	8	0

- From the standpoint of the GM, IOR performance stability was maintained throughout the reference period. This suggests that from the GM's standpoint, IOR performance stability can coexist with a reduction, from the supplier's standpoint, in IOR stability particularly on *dimensions* of risk.

Table 10 Stability Impact Assessments of the IOR Components and Performance 1995/96 - 2012/13

S = Stable; TRI = Threatening entry to Range of Instability; U = Unstable

	<u>Contracts</u>			<u>Outputs</u>			<u>Price</u>			<u>Performance</u>		
	S	TRI	U	S	TRI	U	S	TRI	U	S	TRI	U
1995/1996	4			4			1	2	1	1	1	
2004/2005	3	1		3	1		1	2	1	1	1	
2005/2006	1	3		3	1		1	2	1	1	1	
2007/2008	1	3		2	2		1	2	1	1	1	
2008/2009	1	3		2	2		1	2	1	1	1	
2012/2013		4		2	2		3	1		1	1	

262

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Empirical Conditions

- Origins and Initial Conditions
- The Institutional Environment
- IOR Dynamics
- Historical Trajectories IOR level
- IOR Exogenous Events

Theoretical and Conceptual Frameworks

- Historical Institutionalism (HI)
- Government Monopsony (M_G)
- Resource Dependence Theory (RDT)
- Historical Institutionalism (HI)
- Context : IOR Analysis

The theoretical and conceptual frameworks were used to interpret and explain IOR stability, threatened instability, and instability over time i.e.

How and Why: $I/S (IOR)^T$?

To ensure coherence and consistency in the interpretations and explanations, the various theories and concepts were integrated. Some of this integration is illustrated in the next three figures.

Figure 2 depicts the relationships between the main concepts, theory and empirical conditions

Figure 1 depicts the main concepts and formal relations between those concepts in RDT

Figure 3 is an unpacking of the relationships in Figure 2 to show these from a processes standpoint

For further details please see inserts - slides 16, 18, 20 & 21.

Figure 2 Theoretical Framework for Explanation of NHS – HE IOR In/stability

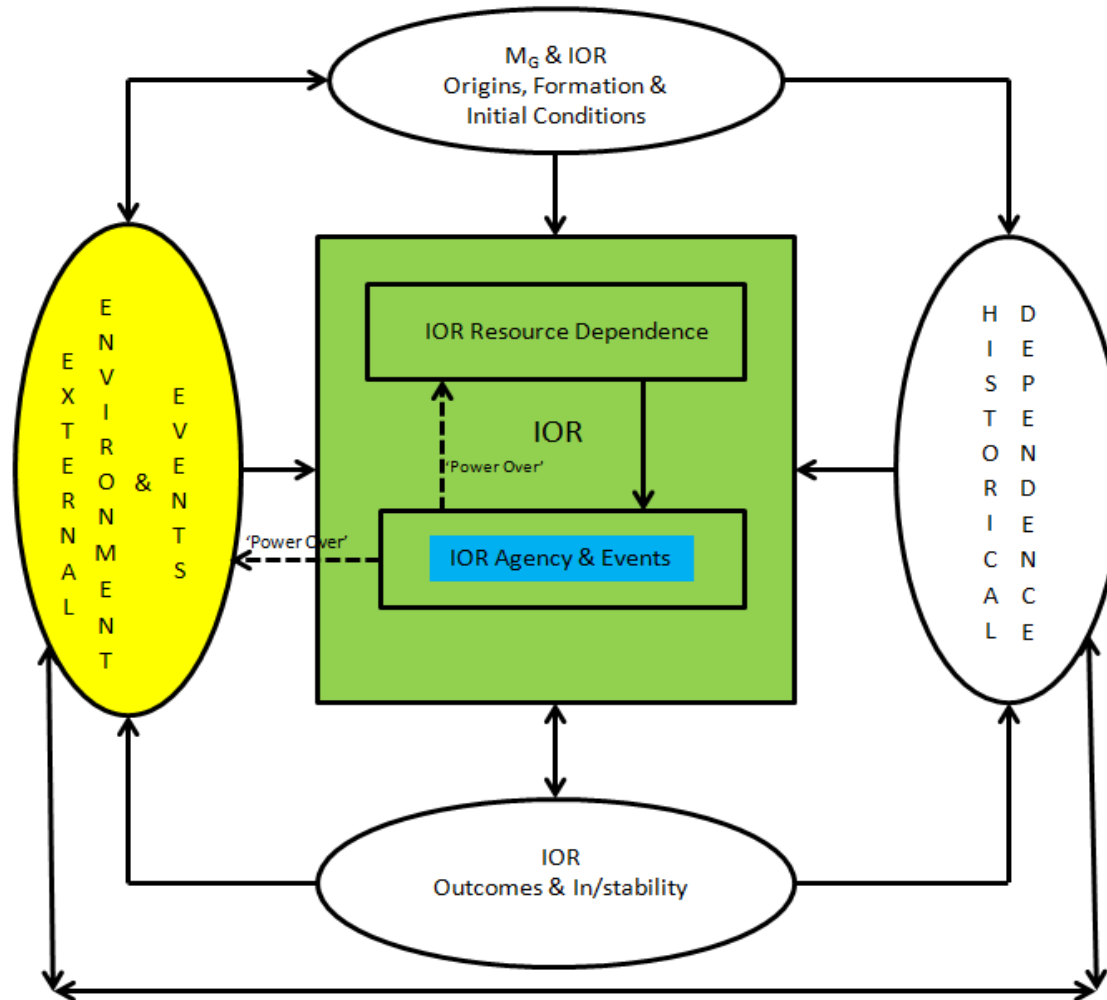


Figure 2 notes

- **M_G & IOR Origins, Formation: & Initial Conditions** this included the historical events and processes leading to the establishing of the M_G and subsequently of the IOR.
- **IOR:** this included the components of Agency as defined earlier, viz. the **IOR**, the **Resource Dependence relations between the IOR Agents**, **IOR Agency & IOR Events**.
- **External Environment & Events:** this included all of the constituents of, and relevant events in the institutional environment as defined earlier, viz. the macro institutional environment, the NHS and HE inter-sector institutional arrangements (including the M_G once that was formed), and organizations, including the organizations in the IOR.
- **IOR Outcomes & In/stability:** this included the IOR key outcomes and consequences for in/stability of the IOR.
- **Historical Dependence:** this included the various forms and types of historical dependence which over time shaped IOR agency and also agency in the macro-institutional environment of the IOR, including agency in the M_G.

The dynamics between the component parts of the framework are shown by line arrows, these indicating directions of 'influence', 'shaping', or 'determination':

The **M_G** originated out of, and was **formed** as a result of, a confluence of **events** and macro policy developments in the **external environment** (the NHS sector, the HE sector, and the macro institutional environment). Subsequently, the **IOR** (between the GM & MU) also **originated** from events in the **external environment** – mainly in the respective NHS education buyer and university organizations. The **formation** of the **IOR** was the outcome of negotiations between the GM and MU and in which the **resource dependence** relations between those organizations were an influential factor. The relations of resource dependence between organizations in an IOR can be substantially different before an IOR is established between them compared with after that event, for example where the commitments made by one organization as a consequence of entering into the IOR were relatively more substantial than the commitments made by the other organization.

Once the M_G and IOR were established, **IOR Resource Dependence** became one of the key factors in influencing, shaping, or determining **IOR Agency**, **Events**, **Outcomes** and **In/stability**; other key factors shown in figure 2 were (i) forms and processes of **Historical Dependence** which initially might arise from the IOR and also be rooted in its **Initial Conditions** particularly as shaped by the M_G, and which functioned to influence and shape the choices available to **IOR Agency** at all levels of the IOR (*dimensions*, components, & overall) and (ii) the **External Environment**, particularly the M_G, which functioned to shape and partly determine power imbalances in **IOR Resource Dependence**. **Events** in the external environment, particularly where these occasioned 'critical junctures' in NHS – HE inter-sector policy formulation, could also be a key factor over time in changing the effect on IOR stability impacts of the **Initial Conditions** shaped by the M_G and/or changes to the types, forms and stability impacts of **Historical Dependence** processes on the IOR *dimensions*, components and overall. **Historical Dependence** processes were also potentially relevant to the **M_G** and to **Events** in the **External Environment** including **Events** in the M_G; hence the line arrows between **Historical Dependence** and the **External Environment & Events** are shown as two-way.

The '**Power Over**' dotted line arrows indicate where either or both of the IOR agents had the ability to accommodate to the demands of each other and/or to influence or change the structure of power dependence relations between them. For example, the dotted line arrow from the IOR to the **External Environment** indicates where either of the organizations in the IOR might undertake 'balancing operations' or even 'unbalancing operations'.

While mainly a dependent factor, **IOR Outcomes and in/stability** over time might also impact recursively as an influencing factor: this is shown in figure 2 as line arrows of feedback to the **IOR**, to the **External Environment** and to **Historical Dependence**.

Figure 1

Configurations of Power Imbalance and Mutual Dependence

		----- MU Dependence on GM -----		
		Low (1)	Medium (2)	High (3)
----- GM Dependence on MU -----	High (3)	Configuration 7: Monopoly Power imbalance (2) Mutual dependence (4)	Configuration 8: Imperfect Markets Power imbalance (1) Mutual dependence (5)	Configuration 9: Bilateral Monopoly Power imbalance (0) Mutual dependence (6)
	Medium (2)	Configuration 4: Oligopoly Power imbalance (1) Mutual dependence (3)	Configuration 5: Imperfect Markets Power imbalance (0) Mutual dependence (4)	Configuration 6: Imperfect Markets Power imbalance (1) Mutual dependence (5)
	Low (1)	Configuration 1: Imperfect Markets Power imbalance (0) Mutual dependence (2)	Configuration 2: Oligopsony Power imbalance (1) Mutual dependence (3)	Configuration 3: Monopsony Power imbalance (2) Mutual dependence (4)

Source: Adapted from Casciaro and Piskorski (2005), p.171

Notes: H, M, L is an ordinal not an interval scale. approximations to some market structures can be made using the above scheme: M_G approximates to Configuration 3, Oligopsony to Configuration 2, Bilateral Monopoly to Configuration 9; Monopoly to Configuration 7, Oligopoly to Configuration 4, Imperfect Markets to Configurations 1, 5, 6 and 8.

Figure 1 Notes

Figure 1 is based on Emerson's theory of dyadic power, in which it is assumed that the power of MU over GM (or of GM over MU) is inversely proportional to the dependence of GM on MU (or of MU on GM). It is also assumed that the dependence of one actor on the other is a function of 'resource criticality' and the availability of alternative actors of 'critical resources'. Thus MU (or GM) is dependent on GM (or MU) in proportion to the need of MU (or GM) for resources that GM (or MU) can provide and inversely proportional to the availability of alternative actors that are capable of providing the same resources to GM (or MU). In Figure 1:

- The first dimension of dyadic power - '*power imbalance*' - is defined as the difference in power of each actor over the other; the second dimension of dyadic power - '*mutual dependence*' - is defined as the bilateral dependencies in the dyad.
- The level of dependence of MU on GM increases along the x axis; the level of dependence of GM on MU increases along the y axis.
- Nine different potential configurations of power imbalance and mutual dependence between actors MU and GM are depicted. Dyads in the green shaded boxes are power balanced but with different levels of mutual dependence; the lowest level of mutual dependence is in configuration 1, the highest in configuration 9.
- In dyads above the diagonal green shaded boxes (configurations 4, 7 and 8), power imbalance favours actor MU. Conversely, power imbalance favours actor GM in dyads below the diagonal (configurations 2, 3 and 6).

[illegible]

Figure 3 Notes (i)

- **Macro Institutional Environment & Events:** this included institutions and events *at the macro level* of the political, economic, social and technological environment of the health and higher education sectors. 'Institutions' at the macro-societal level were defined as '*the basic norms, rules, conventions, habits and values of a society*' (Hollingsworth 2002, North 1990).
- **Health and Higher Education Institutional Sectors & Events:** this included relevant organizations and events in the health and HE sectors e.g. the organizations in the M_G , the relevant funding, professional and regulatory bodies (such as the Nursing and Midwifery Council, the Higher Education Funding Council of England, the Quality Assurance Agency), and lobbying groups such as the Council of Deans of Health and the London Deans of Health Group). Also included were the relevant healthcare occupations for which education was provided in the M_G .
- **Health and Higher Education Inter-sector Institutional Arrangements:** these were the governance and funding arrangements between the NHS and HE sectors. In this research inquiry these included principally the NHS healthcare workforce education monopsony (the M_G) and also the relevant inter-sector co-ordinating groups (such as the Health Education National Strategic Exchange). They also included the funding models and regulatory frameworks and processes which were relevant to healthcare occupations and healthcare workforce education.
- **IOR Agency:** this comprised (i) the **IOR Agents** (including their ideas, aims and objectives, their perceptions of the other IOR agents, their perceptions of the force of external norms and constraints, and their expectations of IOR outcomes); in this inquiry the IOR agents, as organization level agents (see Chapter 2) were the GM and MU (ii) the **IOR** (which included the formal (contractual) arrangements governing exchange between the IOR agents, and their power-dependence relations with each other) (iii) **IOR Events** (which included the exercise of power by IOR agents).
- **IOR Key Outcomes:** these included the product/service outputs of the IOR, the prices paid for IOR product/service output, and the specific contract mechanisms and contracts in the IOR governing the relations of exchange between the GM and its suppliers
- **IOR Performance:** this was the performance of the IOR from the perspectives of the IOR agents (e.g. in relation to their objectives and expectations) and included measures used by the IOR agents in their evaluations of the IOR and of its performance.
- **Consequences for IOR in/stability over time:** this concerned the impact on the in/stability of the IOR, the IOR components, and the IOR *dimensions* arising from the IOR key outcomes and performance.

Figure 3 Notes (ii)

IOR Agency was assumed to be driven by the **ideas, aims and objectives** of the IOR agents. These ideas, aims and objectives may have varied according to issues and contexts – they were not necessarily either wholly or partly economic. The capacity of IOR agents to achieve their aims was dependent on their **Powers ('Power to' and 'Power over')**. Whether, when and how IOR agents used their powers was mediated by their **expectations** of potential outcomes and the **perceived risks** of the choices open to them. These expectations and perceptions of risk of IOR agents were affected by IOR agents' **perceptions of other IOR agents** (e.g. by the perception the IOR supplier had of the GM) in particular of the intentions of other IOR agents, the extent to which their interests were mutual and their expected behaviour. The expectations of IOR agents of potential IOR outcomes might also have fed back to modify their perceived interests and goals and also their perceptions of the congruence of their interests and goals with those of other IOR agents (e.g. as between a supplier and a GM). IOR agents might have **exercised their powers** either strategically or habitually; for example, an IOR agent's expectations of outcomes might have been so well formed on particular issues and in particular contexts that the social reality was 'taken for granted' and the IOR agent's conduct was habitual. An important influencing factor on the exercise of power by IOR agents was assumed to be their perceptions of the force of norms and constraints whether within these were within their own organizations or in the institutional environment.

The **Institutional Environment** of the IOR, particularly the macro institutional environment was assumed to be important in 'determining', 'shaping', or influencing IOR agency and its components. For example, an important source of the powers of the GM in the IOR was the Health-Higher education inter-sector institutional arrangements, i.e. the M_G which became the institutional arrangement within which context the IOR was originated, developed, and conducted. IOR agents might however also have influenced or shaped their institutional environment to some extent. The latter was represented by the dotted line arrows 'Power over' between IOR Agents and their institutional environments at sector level. Each IOR agent might have influenced other IOR agents including their institutional environment; for example, the GM might have influenced the M_G institutional arrangements.

IOR Key Outcomes & Performance: these were the outcomes of IOR agency as shaped by the power-dependence relations between IOR agents and by the institutional environment and events.

Consequences for IOR in/stability: these followed on from IOR key outcomes and performance.

Processes of feedback: these processes arose from IOR key outcomes and performance and the consequences for IOR in/stability; they included resultant feedback from the IOR to all constituents of the environment (i.e. including the macro institutional environment, the health and higher education sectors, and the health and higher education inter-sector institutional arrangements); there was also feedback to components of agency, partly via processes of reflexivity of the IOR agents themselves.

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Definitions: Monopsony; Government Monopsony (M_G)

- Monopsony has been defined as the economic condition where there is one buyer (the 'monopsonist') and many sellers '*of a well-specified good or service*'. Blair & Harrison (2010)
- M_G is similar to monopsony in all respects with the further characteristic that the standing of a M_G as a monopsony is protected by statute or government regulation.
- Some M_G operate as quasi-markets (QMs). QMs are similar to conventional markets in that the provision of a service is undertaken by competitor providers; under M_G , QMs are different in that the GM is financed from resources provided by the state instead of from its own resources. Le Grand & Bartlett (1993)

The main underlying conditions of M_G are:

- From the GM's standpoint there is perfect substitutability of individual sellers/suppliers
- From the sellers' standpoint no alternative buyers are or will become available; *within a given time horizon*, sellers are unable economically to develop substitutes for their outputs to the M_G for which prospective alternative buyers would be available
- Sellers' individual exit costs from the monopsony are relatively high
- Sellers' individual supply curves, as well as the aggregate supply curve for the M_G , are upward sloping and usually relatively inelastic
- Sellers usually do not act in concert, whether by informal collusion and/or by formal coalition.

Where sellers facing a single buyer join together in a coalition and act in concert, the resulting market arrangement is a bilateral monopoly. But where the agreements of the coalition are not enforceable between its members then the market might still function as a monopsony or M_G .

271

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Findings contd.:

- **The IOR originated under conditions of M_G and continued to exist mostly under those conditions during the reference period.**
 - Processes determining contracts, outputs and prices were in their final stages usually conducted between the GM and individual sellers. The exceptions to this occurred in the later part of the reference period when from 2009 the sellers acted in concert in processes of price determination. The effect of this was that on *dimensions* of the price component of the IOR, the conditions under which the IOR existed became those of bilateral monopoly.
 - For further details please see insert - slide 24.
- **The reference period, 1995 – 2013, consisted of three distinctive sub-periods. The characteristics of these sub-periods reflected material developments in the environment of the IOR as well as material changes in the contracts of the IOR.**
 - 1995 – 2004: Growth; Mutual Dependence to Resource Dependence & Historical Dependence
 - 2005 – 2007: Exogenous Change; Drift & Adaptation
 - 2008 – 2013: A Critical Juncture; Exogenous Shock & Decline; Power Games
- **‘U’ and ‘TRI’ in the IOR over the reference period were brought about mostly by the exercise of power by the GM and by the power dependence responses of MU. The exercise of power by the GM in the IOR consisted partly of responses to events exogenous to the M_G , especially to exogenous shocks to the M_G , which occurred during the latter part of the reference period (2005-2009). In the last 5 years of the reference period (2008-2013), the GM also exercised power on its own initiative to bring about changes in the IOR as well as in the M_G which were consequential for stability on *dimensions* in the IOR.**
 - For further details please see inserts – slides 24-27

IOR Context 1995 – 2013: Persistence of the Conditions of M_G

The provision of non-medical education by HEIs to the NHS continued to be made mostly under conditions of M_G on a quasi-market basis for the whole of the reference period 1995-2013:

1. There was a single education buyer (the GM) whose standing was protected by government regulation and whose resources came entirely from the state.
2. The education product for pre-registration education (which accounted for c. 90% of the activity by volume and value in the M_G) continued to be 'well specified' both in terms of content and delivery, by the relevant regulatory body; consequently from the buyer's standpoint different suppliers continued to be substitutable for each other. The potential substitutability of sellers' outputs generally also remained, particularly in terms of the potential for healthcare workforce employers to source registered non-medical professionals from outside of the UK.
3. No alternative buyers for outputs from the specialised resources (mainly academic staff) of the suppliers became available. The potential cost of the transformation (via retraining) of those resources so that they could be redeployed by the suppliers to alternative uses continued to be uneconomic. Under their IOR contracts with the GM, sellers continued to be barred from charging tuition fees to their students; thus, the entire income to sellers, such as MU, from their NHS contracts activities continued to come from the GM.
4. As a consequence of the persistence of the conditions under 2 and 3 above, the individual supply curves and the aggregate supply curve in the M_G continued to be upward sloping and relatively inelastic over the reference period.
5. There were many sellers as well as many potential sellers in the geographic area defined for the GM over the course of the reference period. This remained the case even when GM restructurings took place and the geographic area covered by the GM was redefined; for example, in 2012 for the region applicable to the IOR there were c. 12 potential higher education providers of adult nursing pre-registration programmes and 9 actual providers.
6. Processes determining contracts, outputs and prices were in their final stages usually conducted between the GM and individual sellers. The exceptions to this occurred in the later part of the reference period when from 2009 the sellers acted in concert in processes of price determination. The effect of this was that on *dimensions* of the price component of the IOR, the conditions under which the IOR existed became those of bilateral monopoly. However, as will be discussed below in Chapter 6, from 2011 these conditions of bilateral monopoly began to be contested by the GM.

TABLE 4(i): IOR Events 1995/96-2012/13: CONTRACTS

<u>Events & IOR Dimensions</u>	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
MU NLCHS Merger	X																	
IOR Group 1 Contracts	X	X	X	X	X	X	X	X	X	X								
CoDH established		X																
GM Restructurings		X		X			X	X		X		X						X
National Standard Education Contract												X				X		
IOR Group 2 Contracts											X	X	X					
NHSL established												X						
LDHG established												X						
IOR Group 3 Contracts														X	X	X	X	X
LEC 1														X	X	X	X	X
Development of CPM and QCPM													X	X	X	X	X	X
ITT & LEC 2																	X	X
Health & Social Care Act 2012																		X

TABLE 4(ii): IOR Events 1995/96 - 2012/13: OUTPUTS, PRICE, PERFORMANCE

Events & IOR Dimensions	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
Project 2000 Review				X	X													
Nursing Prof. Consolidation						X	X	X	X	X	X	X	X	X	X	X	X	X
NMET Levy	X	X	X	X	X	X												
MPET Levy							X	X	X	X	X	X	X	X	X	X	X	X
NHS Plan 2000						X												
Health & Social Care Act 2001							X											
NHS 'Reconfigurations'										X	X	X	X	X	X	X	X	X
NHS Trusts in overall deficit										X	X							
NHS 'Financial Crisis'											X							
MPET ring fence lifted											X							
HE 'boom-bust' lobbying											X	X	X					
IOR Tender/Price Negotiations	X	X							X		X	X	X					
MU/UCL buy Archway Site		X																
NAO NHS Education Review							X											
BMP Initiative							X	X	X									
BMP delay & implementation											X	X	X	X	X			
Health & Social Care Act 2003									X									
PBR Hospitals Funding									X	X	X	X	X	X	X	X	X	X
New Contracts: Consultants; GPs									X	X								
First Foundation Trusts created										X								
FESC; WCC; 'Education Commissioning Regime'												X	X	X	X	X	X	X
GM devises & implements new '(VFM)max Strategic Framework'													X	X	X	X	X	X
BMP review & negotiations													X	X	X			
HEFCE NHS-HE Review														X				
UKHEAC, HENSE established													X	X				
Global Financial Crisis													X	X				
'Nicholson challenge': QIPP															X	X	X	X
NHS Workforce Plans & Education Plans linked															X	X	X	X
IOR supplier capacity plans															X	X	X	X
FSWT, OBC and ITT initiatives																X	X	X
OBC & ITT IOR negotiations																X	X	
NHS (£30bn) p.a by 2020/21																		X
MU Op. Surplus/Deficit %	3.1	2.9	-0.1	2.2	0.7	-5.2	-4.6	-1.6	-4.1	-8.7	-13.5	0.5	0.9	1.2	1.7	3.1	4.4	7.1
MU NHS Contracts Sustainability Reviews												X			X			X
HE Tuition Fees: £1k/£3k/£9k				X								X						X

TABLE 15: IOR Stability, Historical Dependence Processes and Power Dependence Responses 1995/96 - 2012/13

Historical Dependence Key: IC = Initial Conditions; F/F1/F2/F3 = Founder; FG = Forgetting; BU = Burden of History

IOR Stability Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable

		Stability Impact over Time																		
	IOR Key Outcomes: <u>COMPONENTS & Dimensions</u>	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	
CONTRACTS																				
1	Duration	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	FG	FG	FG	F2	F2	F2	F2	F3	
2	Termination	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	FG	FG	FG	F2	F2	F2	F2	F2	
3	Compliance - Information; Management & Review	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	F1	BU	BU	BU	F2	
4	Placement Responsibilities	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	FG	FG	FG	F	F	F	F	F	
OUTPUTS																				
5	Output Specification	IC	IC	IC	IC	IC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2	
6	Output Floors and Ceilings	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	FG	FG	FG	F	F	F	F	F	
7	Size of Short Run Variability of Output Quantities	IC	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	
8	Trends in GM Demand for Output Quantities	IC	IC	IC	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	FG	
PRICE																				
9	Basis of Price - Innovation	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	F	F	F	F	
10	Basis of Price - FEC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2	F3	F3	F3	F3	
11	Basis of Price - OBC Risk	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	IC	
12	Actual Price v Supplier's FEC	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F1	F2	F2	?/F3	?/F3	F3	F3	
PERFORMANCE																				
13	Performance (i)	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG	
14	Performance (ii)	F1/IC	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F1/FG	F2/FG	F2/FG	F3/FG	F3/FG	F3/FG	F3/FG	
<u>Initial Conditions & Historical Dependence Processes</u>																				
	Initial Conditions	12	9	9	8	8	5	5	5	5	5	3	3	3	2	1	1	1	1	
	Founder	4	4	4	4	4	7	7	7	7	7	5	5	5	10	10	10	10	11	
	Forgetting		3	3	4	4	4	4	4	4	4	8	8	8	4	4	4	4	4	
	Burden of History															1	1	1		
<u>Power Dependence Responses</u>																				
MU Cost Reduction/Productivity Improvement													X	X	X	X	X	X	X	
MU Internal Cross-subsidy												X	X	X	X	X	?	?		
MU Acceptance of Increased Risk													X	X	X	X	X	X	X	X
MU Lobbying													X	X	X		X	X	X	
MU Coalition Formation																	X		X	X
GM Output Demand Changes			X	X	X	X	X	X	X	X	X		X			X	X	X	X	
GM Rent Extraction			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
GM Increasing Compliance Surveillance																	X	X	X	X
GM Lobbying																		X		X
GM Exercise of Discretion or Veto													X	X	X	X	X	X	X	X
GM IOR Rules Change																	X			X
GM Transfer of Risk													X	X	X	X	X	X	X	X

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Explanations of IOR 'S', 'TRI', and 'U':

An overall explanation of IOR in/stability over time is summarised in the expression:

$$I/S(\text{IOR})^T = f[\{\text{RD}(\text{IOR}) * \text{HD}(\text{M}_G)\}, \text{HD}(\text{IOR}), \dots]$$

where:

- I/S(IOR) is the stability, threatened instability, and instability of an IOR
- T is the selected time period
- RD is the resource dependence in the IOR (particularly MU's resource dependence on the IOR)
- HD(M_G) are historical dependence (HD) processes at M_G level (particularly the impact over time of the underlying conditions of M_G on the balance of power between MU and the GM)
- * (the asterisk) denotes the **combination** of resource dependence (RD) with HD processes at M_G level
- HD(IOR) are historical dependence processes at IOR level. These processes were established mostly via the IOR contracts and persisted for the duration of those contracts
- ... (the dots) denote other variables which could be relevant to the in/stability of the IOR e.g.
 - demand from the NHS for newly registered non-medical professional staff
 - placement capacity
 - compatibility in the objectives of the GM and MU
 - powers of the GM and MU in regard to the achievement of their shared objectives in the IOR

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Explanations of 'TRI' and 'U' impacts on the IOR during the reference period

- 25 events were identified which resulted in TRI or U impacts on the IOR during the reference period. The total number of these impacts which occurred in each year came to 114 (out of a possible 252).
- Three explanations, (A, B, C) of these TRI and U impacts were developed :
 - Explanation A = [$\{RD(IOR) * HD(M_G)\}$, $HD(IOR)$]
 - Explanation B = [$\{RD(IOR) * (In/effectiveness\ of\ Negotiation\ Strategy/Coalition)\}$, $HD(IOR)$]
 - Explanation C = [$NHS(Demand\ Growth/Demand\ Decline/Placement\ Capacity\ Constraint)$]
- TRI and U impacts under Explanation A occurred under conditions of M_G
- TRI and U impacts under Explanation B occurred under conditions akin to bilateral monopoly. Under those conditions the relative power of the sides in the negotiation was unstable; the relative power of each side depended largely on the in/effectiveness of the power dependence responses of the negotiating parties.
- TRI and U impacts under Explanation C: here it was events exogenous to the M_G e.g. changes in overall NHS resources and consequent demand for healthcare workforce education, which were decisive for impacts on IOR stability rather than the power balance between the buyer and supplier at IOR or M_G levels
- For details of the 25 events and the explanations associated with those events please see insert – slide 30 (Table 21)

Table 21: Explanations of Instability & Threatened Instability on IOR Dimensions 1995 - 2013					
Year	IOR Key Events Description	Initiator(s) of Event	IOR Dimensions	Explanations of IOR Instability Impacts	Comments & Sources of Evidence
CONTRACTS			RD = Resource Dependence; HD = Historical Dependence; In/effectiveness = Ineffectiveness or Effectiveness		
2005	Expiry of 2000 - 2005 Contract; Interim Contract	GM	1-4; 6	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	Interim contract offered by GM pending NSC finalisation. Source: Archive 34.
2006	Interim Contract	GM	1-4; 6	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	Interim contract offered by GM, pending GM restructuring. Source: Archive 35.
2007	Interim Contract	GM	1-4; 6	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	New GM rejects NSC. Interim contract offered by GM pending GM proposed alternative to NSC. Source: Archive 36.
2008	LEC1 (Power Game 1)	GM	2-4; 6	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	LEC1 is core project of GM (VFM) _{MAX} ECR strategy. Sources: NHS London (2007); Archive 37, 86
2012	LEC2 (Power Game 4)	GM	1-4; 6; (11, 10)	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	Clauses in LEC2 potentially affecting future stability impacts on dimensions 11 & 10. Source: Archive 38.
OUTPUTS & PERFORMANCE					
1997, 1998, 2000	Annual Output Quantities Demand	GM	7	NHS(Demand Growth)	GM & MU collaborate to manage exceptional demand growth. Source: Archive 9.
2009	Annual Output Quantities Supply/Demand	MU	7, 14	NHS(Placement Capacity Constraint)	MU volunteer supply reduction. GM and MU collaborate to smooth GM output demand over 2 years. Source: Archive 46.
2003, 2004, 2006-2012	Trend Output Quantities Demand	GM	8, 14	[NHS(Demand Decline), HD(IOR)]	In 2006 GM lifts ring-fencing of MPET budget to reallocate education resources to plug deficits in NHS service budgets. Continuation of demand decline due to (i) NHS budget constraints (ii) NHS EDAs from 2010. Sources: Archives 59, 60, 67, 69,
PRICE & PERFORMANCE					
1995	Tender Negotiations	GM/MU	12; 10; 14 (9; 11)	$\{RD(IOR) * (Ineffectiveness of MU Negotiation Strategy)\}, HD(IOR)$	MU under-priced tender at least partly due to mistakes in cost estimates. Source: Archive 27.
1996	Contract Price Negotiations	MU	12; 10; 14	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	Negotiations initiated by MU in attempt to rectify mistakes in 1995 negotiations. MU failed to achieve any of its objectives. Source: Archive 27.
2003	Post-registration Price Negotiations	MU	12	$\{RD(IOR) * (Effectiveness of MU Negotiation Strategy)\}, HD(IOR)$	Balance of power in IOR different for post-registration activity. GM found means to accommodate concessions it made in price by subsequently making reductions in its output quantities demand. Sources: Archives 9, 146.
2005	BMP Implementation Delay	GM	12; 10; 14	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	GM decides unilaterally to delay BMP implementation on grounds of 'affordability'. MU protests but to no avail. Source: Archive 70.
2006	BMP Implementation Delay	GM	12; 10; 14	$\{RD(IOR) * HD(M_G)\}, HD(IOR)$	Ditto. Source: Archive 71.
2009	BMP Negotiations (Power Game 2)	GM	12; 10; 9; 14	$\{RD(IOR) * (Ineffectiveness of HE Negotiation Strategy)\}, HD(IOR)$	Balance of power reflected fact that the BMP was being negotiated at national level between the buyers as a group of GMs represented by DH and selected GMs, and HEIs represented by CoDH/UUK. Sources: Archives 89 - 95.
2010	OBC Negotiations (Power Game 3)	GM	11; 14	$\{RD(IOR) * (Effectiveness of MU Lobbying \& Strong HE Coalition)\}, HD(IOR)$	The strength of the HE coalition was founded on the unanimity of the interests of the HEIs in the coalition and their perceptions of those interests. A key part of MU's management of the HE coalition was to educate the HEIs in the coalition in the perception of their interests. The strength of the coalition functioned to alter the balance of power between the GM and the HEIs (including MU) in their IORs in the M _G . Sources: Archives 117 - 128.

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Explanations of 'TRI' and 'U' impacts on the IOR during the reference period

- Explanations A and B were associated with 87 of the 114 'U' and 'TRI' impacts on *dimensions* in the contracts, price and performance components of the IOR
- Explanation C was associated with the 14 'TRI' impacts on *dimensions* 7 and 8 in the outputs components of the IOR
- 9 'TRI' impacts were associated with explanations A and/or B, and C on *dimension* 14 of the performance component of the IOR for the years 2006/07 to 2012/13 (these were cases of 'over-determination').
- Of the 'TRI' and 'U' impacts in the IOR over the reference period:
 - Explanation A was associated with c. 75% of the impacts
 - Explanation B was associated with a further c. 5% of the impacts
 - Explanation C was associated with c. 15% of the impacts
 - There were insufficient data to explain the remaining c. 5% of the impacts
- For details of the TRI and U impacts and their associated explanations at IOR *dimension* level please see insert - slide 32 (Table 22)

Conclusion: In general, it was the exercise of power by the GM which was decisive for most of the 'U' and 'TRI' impacts in the IOR over the reference period

TABLE 22: IOR TRI and U Impacts 1995-2013 - Map of Explanations A, B and C on IOR Dimensions

Key: Green cells = Stable; Amber cells = TRI; Red cells = Unstable; A = Explanation A; B = Explanation B; C = Explanation C; ? = Insufficient data for explanation

		Stability Impact over Time																			
IOR Key Outcomes: <u>COMPONENTS & Dimensions</u>		1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013		
CONTRACTS																					
1	Duration									A	A		A	A	A				A	A	
2	Termination											A	A	A	A			A	A	A	
3	Compliance - Information; Management & Review														A			A	A	A	A
4	Placement Responsibilities											A	A	A	A			A	A	A	
OUTPUTS																					
5	Output Specification																				
6	Output Floors and Ceilings											A	A	A	A			A	A	A	A
7	Size of Short Run Variability of Output Quantities	C			C	C		C									C				
8	Trends in GM Demand for Output Quantities									C	C			C	C	C			C	C	C
PRICE																					
9	Basis of Price - Innovation	?	A	A	A	A	A	A	A	A	A	A	A	A	A						
10	Basis of Price - FEC	?	A	A	A	A	A	A	A	A	A	A	A	A	A	B	B	B	B		
11	Basis of Price - OBC Risk														B			B	B		
12	Actual Price v Supplier's FEC	?	A	A	A	A	A	A	A	A	A	A	A	A	A	?	?				
PERFORMANCE																					
13	Performance (i)																				
14	Performance (ii)	?	A	A	A	A	A	A	A	A, C	A, C	A	A, C	A, C	A, C	A, B, C	A, B, C	A, B, C	A, B, C		

A Case History: Middlesex University (MU) & the NHS Education Commissioner (GM)

Overall Conclusion

- Instability and threatened instability in the IOR during the reference period were due mostly to a power imbalance in the IOR, in favour of the GM, between the GM and MU
- The source of that power imbalance was a combination of:
 - The resource dependency of MU on the IOR
 - The conditions of government monopsony and bilateral monopoly under which the IOR existed.
- MU's resource dependency was created at the outset of the IOR through the commitment by MU to the specialist dedicated resources entailed in its role in the IOR.
 - In the first half of the reference period, this resource dependency increased as the IOR grew in size and relative importance to the financial operating position of MU while at the same time most of the conditions of government monopsony under which the IOR had been created also persisted.
 - In the second half of the reference period the IOR declined in size; however, from MU's standpoint the IOR still continued to be important to the financial operating position of MU so that MU's resource dependency on the IOR continued

Alternative Futures

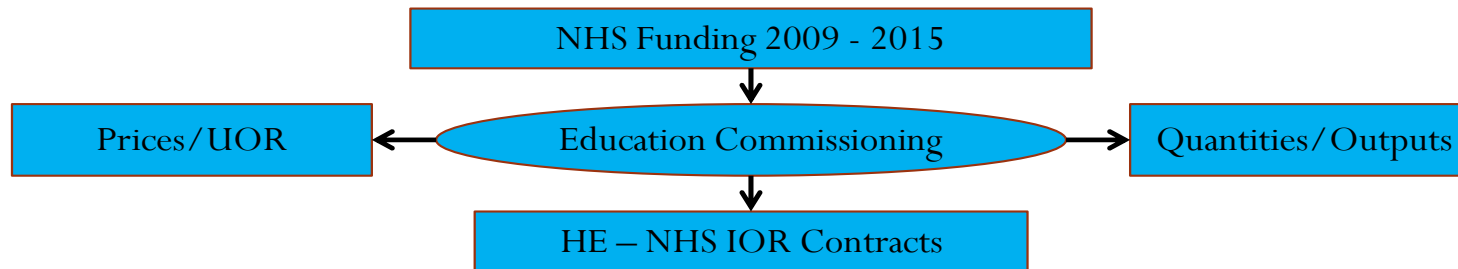
What are the Implications for Policy?

Overview

- Current Issues
- Existing Regime
 - A HEE Contract Framework Scenario
 - Recommendations
 - Sustainability
- New Regime
 - Funding Model
 - Funding Model Options
 - Evaluation Criteria
 - Raw Evaluations
 - Conclusions
 - A HEFCE Contract Framework Scenario
 - Recommendations

Current Issues

Macro-economic events & policies combined with continuing rise in need & demand for healthcare have functioned to threaten the stability of HE – NHS IORs on key dimensions ...



Consequences

- BMP Shortfall on HEI Standard FEC from 2005/07
- Quantities Shortfall on NHS Demand or Need from 2005/06
- HEIs IOR Contracts Risk Burdens: Increase in London from 2005/06

Forecast to 2020

Increasing Shortfall
Continuing Uncertainty
HEIs' Risk Burdens Increasing

What impact will instability &/or threatened instability on HEI – NHS IORs have on overall stability of HE – NHS ISR?

Alternative Futures: Existing Regime – A HEE Contract Framework Scenario

TABLE 24 (June 2015): IOR Stability: Impacts 1995 - 2013; Health Education England and HEFCE Contract & Price Scenarios 2017/18

Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable

		Stability Assessments						Scenario HEE Contract Framework	Sources of Evidence of HEE Scenario	Scenario HEFCE Contract
		1995/1996	2004/2005	2005/2006	2007/2008	2008/2009	2012/2013	2017/2018		2017/2018
	<u>IOR Key Outcomes: COMPONENTS & Dimensions</u>									Assumptions: (i) HEFCE Price Group B Tuition Fee (ii) Price Group B = HEI FEC
	CONTRACTS									
1	Duration	S	TRI	TRI	TRI	S	TRI	S	Archive 57	S
2	Termination	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	S
3	Compliance - Information; Management & Review	S	S	S	S	TRI	TRI	TRI	Ditto	S
4	Placement Responsibilities	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	S
	OUTPUTS									
5	Output Specification	S	S	S	S	S	S	S	Ditto	S
6	Output Floors & Ceilings	S	S	TRI	TRI	TRI	TRI	TRI	Ditto	S
7	Size of Short Run Variability of Output Quantities	S	S	S	S	S	S	S	Forecast	S
8	Trends in GM Demand for Output Quantities	S	TRI	S	TRI	TRI	TRI	S	Forecast	S
	PRICE									
9	Price - Innovation	TRI	TRI	TRI	TRI	TRI	S	TRI	Archive 57	TRI
10	Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	Ditto	S
11	Basis of Price - OBC Risk	S	S	S	S	S	S	TRI	Ditto	S
12	Actual Price v Supplier's FEC	U	U	U	U	U	S	U	Archives 57, 18, 22	S
	PERFORMANCE									
13	Performance (i)	S	S	S	S	S	S	S	Forecast	S
14	Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	U	Forecast; Archives 18, 22	S

Alternative Futures: Existing Regime – Recommendations (1)

Risk Management

- Risks and burdens in IOR contracts are reviewed overall and also on the *dimensions* of an IOR from the standpoints of each of the organizations in those IORs
- HEIs individually review their level of resource dependency on their NHS IORs and develop strategies to manage that resource dependency
 - With no other buyers available such strategies might include HEIs deliberately seeking to limit the growth of their NHS IORs and to increase the flexibility of their resources bound up in them, particularly in respect of non-staff fixed assets

Costs

- To enable them to gauge their IOR resource dependency, HEIs should cost their IORs to FEC level, ideally using a validated actual cost methodology which also includes a realistic detailed attribution of overhead costs
 - Credible information about HEI costs is becoming increasingly important in HEI operations generally (not just NHS education). In its review in November 2014 the Higher Education Commission concluded: *‘Universities see ... the cap on tuition fees, as a threat to their continued sustainability ... however the Commission has not been presented with strong evidence from universities that it costs more than an average of £9,000 to deliver good quality courses’*.
- An in depth review of the BMP is completed
 - To be credible review needs to be carried out by an independent organization with an acceptable and acknowledged standing in completing such reviews
 - Issues: What cost standards should be applied? What are the potential impacts on costs and quality of different standards?

Alternative Futures: Existing Regime – Recommendations (2)

Pricing – What should be the basis of price?

- Standard Pricing based on some principle e.g. price should reflect an accepted standard FEC of HEIs in delivering the education provision at the requisite level of quality

Or

- Competitive Pricing

Issues

- Differences between HEIs in their objectives, perceptions of and attitudes to risk, and competitive potential
 - Costs and productivity – current and potential
 - Economies of scale
 - Relative weighting of short-run and long-run objectives
 - Level of current resource dependence
 - Perceptions of, and attitudes toward risk
 - Available strategies e.g. cross-subsidisation, cost reduction, creation and use of countervailing power
- Persistence of significant power imbalances between the GM and individual HEIs under conditions of M_G
 - It is always open to the GM to seek further rent extraction
- Conditions of bilateral monopoly are inherently unstable and more so if the environment affecting funding is itself unstable

Alternative Futures: Existing Regime – Recommendations (3)

Pricing – Under a standard pricing system, how should actual prices be determined?

- Current system (2013/14) – national level negotiations using current prices as baseline

Or

- Previous system (2008, 2009) - national level negotiations using outputs of a recent cost review as baseline

Or

- Semi-automatic adjustments to prices reflecting outputs of updated costs, cost standards & quality reviews

Or

- Unilateral determination of prices by HEE (proposal by HEE, clause 14.1 of draft NSEFA, October 2014)

Issues

- Drift downwards from ‘standards’ has been the norm since BMP introduction in 2005-2007
- How should risks of student attrition be borne? Inter-related preliminary questions here include:
 - What are the risks of student attrition?
 - What is their variance over time? By programme? By cohort? By HEI? By student characteristics on entry? ...
 - To what extent are these risks controllable? How? By whom?

Alternative Futures: Existing Regime – Recommendations (4)

Contracts: Duration; Termination; Monitoring & Management; Placement Responsibilities

- The overall length of the contract duration of an IOR should be specified to allow both the HEI and the GM to make sustainable economic adjustment to situations in the event the contract is not renewed or extended beyond the specified duration date.
 - In 2008 the London Deans of Health Group proposed to the GM that the IOR contracts be annually rolling 5 year contracts
- Excepting under conditions of material breach, the minimum notice required for full or partial termination of an IOR contract should allow both the HEI and the GM to make sustainable economic adjustment in the event of such termination being made
 - From the standpoint of many HEIs it is unlikely that such a notice period would be less than 2 years
- The burdens associated with contract monitoring and management are set appropriately so as to avoid the creation of unproductive deployment of resources, including unnecessary duplication
 - Proposals made by UUK/CoDH to HEE on 29th September 2014 could be taken as a starting point for simplification and streamlining of the current system of quality assurance monitoring
- In allocation of placement responsibilities distinctions should be made between (i) securing placements from an already established placement capacity (ii) establishing of new placement capacity and (iii) maintaining of a placement capacity volume and quality
 - (i) Should primarily be the responsibility of the HEIs. HEE would have a supporting role
 - (ii) Should primarily be the responsibility of HEE. HEIs would still have a supporting role
 - (iii) Should be a joint responsibility of HEE (mainly volume) and HEIs (mainly quality)

Alternative Futures: Existing Regime – Sustainability Assessment

**Even if all recommendations (1) – (4) are implemented:
How sustainable is the existing regime?**

- **Health & Social Care need and demand will continue to grow relatively strongly, e.g. exceeding GDP growth**
- **Macro-economic pressures will continue and may even intensify**
- **Given these factors pressures on NHS service and education budgets will continue, at least to 2021. This prognosis has been declared as “certain ” by relevant decision takers**
- **Under the existing regime it continues to be open to HEE to exercise its monopsony power, or under conditions of bilateral monopoly to use its influence, to obtain outcomes on price which will continue to be disadvantageous to the HEIs (such as the outcomes of the 2014 BMP negotiations). Given continued pressures on its resources arising from the exogenous factors noted above, it is likely that HEE would exercise its power in this way**
- **Under the existing funding regime it is probably unrealistic to expect that a sustainable settlement on price from the standpoint of the HEIs will be made in the foreseeable future**

Alternative Futures: New Regime – A New Funding Model*

Assumptions

- Overall, the quality and innovation requirements and standards for nursing, midwifery and AHPs will continue at current (2014/15) levels or will continue to rise
 - This includes requirements from the UK regulators that pre-registration education programmes are delivered through approved education institutes (AEIs) and that in practice these will continue in the majority to be HEIs.
- At individual healthcare occupation and education programme level, the requirements for quality and innovation will continue to change over time (e.g. changes in the standards specified by professional bodies).
 - Consequently, it is also assumed that flexibility of response of key stakeholders to meet changing requirements for quality and innovation will continue to be needed.
- The replenishment of the NHS professional workforce over time will continue to be predicated mainly on the supply of newly qualified professional staff. Indigenous (country) self-sufficiency in workforce supply will continue to be a strategic objective for the NHS.
- Healthcare students will continue to make a contribution to service, particularly in the final year of their courses.

*The rest of the presentation dealing with alternative futures under a new regime is closely based on a paper by Walsh & Jelfs (2015) *Beyond BMP: Where next for the funding of nursing, midwifery and AHP pre-registration education in England?* CoDH

Alternative Futures: New Regime – A New Funding Model

Scope

Within scope:

- Healthcare occupations: nursing; midwifery; most AHPs
- Education mode and level: full and part time education and training programmes leading to registration in the relevant healthcare occupation
- Funding streams: education tuition fees; placement provider grants; student bursaries and grants

Outside of scope:

- Education level: Post-registration (CPPD) programmes
- Placement funding streams: MADEL; SIFT
- Funding levels (quantum) for each funding stream

Complexities

- Single v Plural Models
 - NHS funded & self-funded students
- Student characteristics
 - Mature Students (demand; diversity; attrition; attitudes to debt)
 - In-programme service contribution
 - Occupational lifetime earnings potential & loans repayment potential
- Programme characteristics
 - Length of programmes & in-course student earnings potential
 - Programme structures & education innovation potential

Alternative Futures: New Regime – A New Funding Model

Specification

The current funding model (“status quo”) and potential alternatives were specified on 6 dimensions:

- **Scope:** this concerns what is to be funded under the model, including types and level of education programmes and the intended coverage of that funding (‘funding streams’), whether for tuition fees, placement provision or student support
- **Funding Sources:** this specifies the funder(s), and gives indicative details of the extent to which each funder is to fund particular funding streams
- **Financing:** this outlines the arrangements by which the funding from each of the funders could be financed.
- **Overall Funding:** this concerns how the overall level of funding is to be determined
- **Tariff Levels or ‘units of resource’:** this concerns how the tariff levels within each of the relevant funding streams are to be determined
- **Implementation:** this concerns potential issues in the implementation of new models and some ideas about how these could be managed

Not specified:

- Accountability (e.g. in setting standards about, and the monitoring of, ‘value for money’)
- Review (e.g. evaluations of actual performance of a model using impact assessments).
 - Both of these dimensions could be dealt with when the potential implications of new models for other parts of the overall system were being considered e.g. NHS workforce planning

Alternative Futures: New Regime – A New Funding Model

Options (for further details please see insert slides 46 and 47)

Table 1 - Summary of Funding Models Options: Funders and Funding Streams					
Key: T = Taxpayer/Government; G = Graduates; E = Employers of healthcare workforce					
			Funding Stream		
			Tuition Fees	Bursaries/Maintenance	Placement
		Funding Model Title			
	0	Status Quo	T	T; G	T
A	1	Student Loans - Group B Tuition Fees plus Supplement	G	G; T	T
	2	Student Loans - Group C Tuition Fees	G	G; T	T
B	3	Student Loans & Employer Levy (i) - Group B Tuition Fees plus Supplement (with fees cap)	G; T; E	G; T	T
	4	Student Loans & Employer Levy (ii) - Group B Tuition Fees plus Supplement (with fees cap)	G; T; E	G; T	T
	5	Private Providers' Employer Levy	G; E	G; T	T
C	6	Student Loans - Flexible Tuition Fees	G	T	T
	7	Student Loans & Employer Levy - Flexible Tuition Fees	G; E	T	T
D	8	Employer Levy & Government Grants (i) (with fees cap)	E; T	T; G	T
	9	Employer Levy & Government Grants (ii) (with fees cap)	E; T	T; G	T
	10	Private Providers' Employer Levy (with fees cap)	E	T; G	T

Table 2.1 Descriptions of Funding Models Options - Part 1		Funding Models				
	Current	Option 1	Option 2	Option 3	Option 4	Option 5
	Status Quo	Student Loans - Group C Tuition Fees	Student Loans - Group B Tuition Fees plus Supplement	Student Loans & Employer Levy (i) - Group B Tuition Fees plus Supplement	Student Loans & Employer Levy (ii) - Group B Tuition Fees plus Supplement	Student Loans & Employer Levy (iii) - Group B Tuition Fees plus Supplement
Dimensions						
Scope	Pre-registration education programmes for non-medical occupations; tuition fees, student support (bursaries/maintenance), placement provider costs	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo
Funding Sources	Taxpayer for all funding streams. Some graduate contributions to repay maintenance loan.	Graduate contributions to repay tuition fee and maintenance loans. Taxpayer for all funding streams less graduate contributions.	Graduate contributions to repay tuition fee and maintenance loans. Taxpayer for all funding streams less graduate contributions.	Employers & government to take over student tuition fees loans in proportion 25%/75% for graduates with qualifying years of NHS employment. Some employers exempted from levy (e.g. charities). Graduate contributions for balance of tuition fee loans and for maintenance loans. Taxpayer for all funding streams less employer and graduate contributions.	Employers & government to take over student tuition fees loans in proportion 50%/50% for graduates with qualifying years of NHS employment. Some employers exempted from levy (e.g. charities). Graduate contributions for balance of tuition fee loans and for maintenance loans. Taxpayer for all funding streams less employer and graduate contributions.	Employer levy to repay 100% of student tuition fee loans for graduates with qualifying years of NHS employment. Some employers exempted from levy (e.g. 'small' employers, charities). Graduate contributions for balance of tuition fee loans and for maintenance loans. Taxpayer for all funding streams less employer and graduate contributions.
Financing	Short-term financing via an annual recurrent budget, the MPET Levy, for all funding streams. Some medium term financing for graduate repayment of maintenance loans	Long-term financing via the Student Loan Company for tuition fee and student support funding streams. Short-term financing via MPET for placement	Same as for Model Option 1, except that the SLC would operate a separate (employer) loan book for the employer levy. Short-term financing via MPET for placement	Same as for Option 2.	Same as for Option 2.	Same as for Option 2.
Overall Funding	Determined mainly by manpower planning and the application of short-term affordability constraints.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.
Tariff Levels	Tuition fees: supposed to be based on price ≈ assumed standard FEC of HEIs. In practice tuition fee levels have been determined by NHS short-term affordability constraints and set well below HEI FEC levels. Some evidence that levels of student support and placement tariffs have also been depressed due to affordability constraints.	Tuition fees: would be aligned with levels of 'home' tuition fees in England for undergraduate programmes. Student support arrangements aligned with those for students on HEFCE funded programmes. Potential scope for increasing placement tariff levels via virement from current recurrent budgets for tuition fees?	Tuition fees: Same as for Option 1. HEI income: Programmes would be classified as HEFCE price group B so HEIs would receive additional HEFCE grant of £1500 per fte. HEIs would also receive a further supplement from HEFCE (of c. £1000 per fte) for their higher cost non-medical programmes. Student support arrangements and Placement tariff levels: same as for Option 1.	Tuition fees & HEI income: same as for Option 2. Student support arrangements and Placement tariff levels: same as for Option 1.	Same as for Model Option 3.	Same as for Model Option 3
Implementation	Current arrangements continue; there are no new implementation requirements	Phasing in for new student cohorts commencing in 2016/17. Apart from the transitioning to the existing frameworks on HEFCE funded programmes for tuition fees and SLC arrangements for student support there would be no new implementation requirements. Repayment of tuition fee loans would commence from 2019/20.	Same as for Model Option 1 except for an additional requirement connected with the reclassification of non-medical programmes to HEFCE price group B with a further supplement for higher cost programmes (proposed in tariff Levels above: this would require validation and confirmation, probably via an in-depth up to date review of actual HEI costs of delivery on the full range of non-medical programmes.	Same as for Model Option 2 except for implementation with employers: (i) To facilitate implementation with employers, 2015/16 would be used to establish and simulate new arrangements. Simulations would include 'shadow charges' where the implications of the new levy arrangements would be made apparent and thereby inform development of new HR and manpower planning which took account of the new information about the cost of education and training. (ii) Depending on duration of qualifying years' requirement, repayment of tuition fee loans by graduates and employers could commence in 2021/22.	Phasing in over a two year period commencing in 2016/17: (i) In 2016/17 the funding model used would be the same as Option 3. (ii) In 2017/18 the funding model would be fully implemented. In effect employers' liability for tuition fees would be 25% for 2016/17 and increased to 50% in 2017/18. (iii) Actual repayment of tuition fee loans by graduates and employers could commence in 2021/22 (see also relevant note on Model Option 3).	Phasing in over a three year period commencing in 2016/17: (i) In 2016/17 the funding model used would be the same as Option 3 (ii) In 2017/18 the funding model used would be the same as Option 4 (iii) In 2018/19 this funding model would be fully implemented. In effect employers' liability for student tuition fee loans for graduates with requisite NHS qualifying years of service would be 25% for 2016/17, increased to 50% in 2017/18, and increased again to 100% in 2018/19. (iii) Actual repayment of tuition fee loans by graduates and employers could commence in 2021/22 - see relevant note on Model Option 3).

Table 2.2 Descriptions of Funding Models Options - Part 2						
	Funding Models					
	Option 6 Student Loans - Flexible Tuition Fees	Option 7 Student Loans & Employer Levy - Flexible Tuition Fees	Option 8 Employer Levy & Government Grants (i)	Option 9 Employer Levy & Government Grants (ii)	Option 10 Employer Levy	Option 11 Student Loans, Employer Levy, & Government Grants
Dimensions						
Scope	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo	Same as for Status Quo
Funding Sources	Graduate contributions to repay tuition fee and maintenance loans. Taxpayer for all funding streams less graduate contributions.	Employer levy to repay 100% of student tuition fee loans for graduates with qualifying years of NHS employment. Some employers exempted from levy (e.g. 'small' employers, charities). Graduate contributions for balance of tuition fee loans. Taxpayer for all funding streams less employer and graduate contributions.	Levy on all public and private healthcare providers to pay 25% of all tuition fees. Some employers exempted from levy (e.g. 'small' employers, charities). Government grant for 75% of tuition fees. Taxpayer for student support and placement funding streams. Some graduate contributions to repay maintenance loan.	Levy on all public and private healthcare providers to pay 50% of tuition fees. Some employers exempted from levy (e.g. 'small' employers, charities). Employers take over Government grant for 50% of tuition fees. Taxpayer for student support and placement funding streams. Some graduate contributions to repay maintenance loan.	Levy on all public and private healthcare providers to pay 100% of tuition fees. Some employers exempted from levy (e.g. 'small' employers, charities). Taxpayer for student support and placement funding streams. Some graduate contributions to repay maintenance loan.	Students/Graduates, all employers, and government contribute to tuition fees in shares which ensure that RAB charges for graduates and employers do not exceed 30%. Employers contributions set at a maximum of taking over c. 20% of graduates contributions to tuition fees subject to graduates fulfilling length of healthcare service requirements. Other features on employer exemptions, student support and placement funding as per model option 10.
Financing	Long-term financing via the Student Loan Company for tuition fee and student support funding streams. Short-term financing via MPET for placement	Same as for Model Option 6, except that the SLC would operate a separate (employer) loan book for the employer levy. Short-term financing via MPET for placement	Long-term financing of 25% of tuition fees via a 'healthcare employer' loan book. For 75% of tuition fees and other funding streams, short-term financing via an annual recurrent budget, the MPET levy. Some medium-term financing for graduate repayment of maintenance loans.	Long-term financing of 50% of tuition fees via a 'healthcare employer' loan book. For 50% of tuition fees and other funding streams, short-term financing via an annual recurrent budget, the MPET levy. Some medium-term financing for graduate repayment of maintenance loans.	Long-term financing of all tuition fees via a 'healthcare employer' loan book. For other funding streams, short-term financing via an annual recurrent budget, the MPET levy. Some medium-term financing for graduate repayment of maintenance loans.	Long-term financing of graduate and employer contributions respectively via the 'student loan book' and a 'healthcare employer' loan book. For other funding streams, short-term financing via an annual recurrent budget, the MPET levy. Some medium-term financing for graduate repayment of maintenance loans.
Overall Funding	Same as Option 3 excepting that responses of relevant stakeholders less predictable: e.g. flexibility allowed on fees might encourage some HEIs to compete on price as well as on quality.	Same as Model Option 6 excepting that responses of employers also less predictable; employers may seek to control future levy costs by exercising 'buying power' indirectly through 'managing' their placement allocations to HEIs	Determined mainly by manpower planning and the application of short-term affordability constraints.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.	Determined mainly by responses of all stakeholders to relevant labour market signals. Could be moderated by manpower planning measures, e.g. by the introduction of quotas for study places at HEIs.
Tariff Levels	Tuition fees: there would be no cap on tuition fees; individual HEIs would be free to set their own tuition fee levels. Student support arrangements would be aligned with those in force during 2014/15 for home students on social care programmes. Potential scope for increasing placement tariff levels via virement from current recurrent budgets for tuition fees?	Same as for Model Option 6 but also subject to exercise of employer buyer power (see note above on 'overall funding').	Tuition fees would be based on price = assumed standard FEC of HEIs. Fundamental reviews of tuition fees would be conducted under an agreed methodology every 3-5 years. Student support and placement tariff levels would continue as under the current arrangements (status quo model) but potential scope for substantial increased funding for these perhaps dependent on actual employer performance in repayment of fees loans via the employer levy.	Same as for Model Option 8	Same as for Model Option 8	Tuition fees: the same as either Option 2 or Option 6 or Option 8. Student support: the same as either Option 2 or Option 6 or Option 8. Placement: same as for Option 2. Mix and match options also available e.g. Tuition fees same as Option 8 while student support same as Option 2.
Implementation	Phasing in for new student cohorts commencing in 2016/17. Apart from the transitioning to the existing frameworks for SLC arrangements and for student support arrangements for social care students there would be no new implementation requirements. Repayment of tuition fee loans would commence from 2019/20.	Same as for Model Option 6 except for implementation with employers: (i) To facilitate implementation with employers, 2015/16 would be used to establish and simulate new arrangements. Simulations would include 'shadow charges' where the implications of the new levy arrangements would be made apparent and thereby inform development of new HR and manpower planning which took account of the new information about the cost of education and training. (ii) Depending on duration of qualifying years' requirement, repayment of tuition fee loans by employers could commence in 2021/22.	Phasing in for new student cohorts commencing in 2016/17. To facilitate implementation with employers, 2015/16 would be used to establish and simulate new arrangements. Simulations would include 'shadow charges' where the implications of the new levy arrangements would be made apparent and thereby inform development of new HR and manpower planning which took account of the new information about the cost of education and training. Repayment of tuition fee loans would commence in 2021/22. Thus the employer levy charge on recurrent budgets could also begin in 2021/22.	Phasing in over a two year period commencing in 2016/17. In 2016/17 the funding model used would be the same as the 'Employer Levy and Government Grants (i)' model (option 8); only in 2017/18 would the 'Employer Levy and Government Grants (ii)' model be fully implemented. In other words government grants for tuition fees which would be at 75% in 2016/17, would reduce to 50% in 2017/18. Otherwise, the implementation strategy would be the same as model option 8 ('Employer Levy and Government Grants (ii)').	Phasing in over a three year period commencing in 2016/17. In 2016/17 the funding model used would be the same as the 'Employer Levy and Government Grants (i)' model (option 8); in 2017/18 the funding model would be the same as the 'Employer Levy and Government Grants (ii)' model (option 9); only in 2018/19 would this 'Employer Levy' model be fully implemented. Otherwise, the implementation strategy would be the same as model option 8 ('Employer Levy and Government Grants (ii)').	Phasing in: For employer contributions same as for Option 5. For student/graduate contributions to student support same as for Option 2. For student/graduate contributions to tuition fees same as for Option 5.

Alternative Futures: New Regime – A New Funding Model

Evaluation Criteria

From a review of the relevant literature, including previous impact assessments of tuition fees funding models & student bursary schemes, and proposals concerning employer levies, the following 12 criteria have been developed:

- **Legal Compliance**
- **Comprehensiveness**
- **Funding Flexibility & Responsiveness**
 - **Healthcare Need and Demand**
 - **Student Recruitment and Retention**
 - **Widening Participation**
- **Funding Adequacy**
- **Funding Sustainability**
 - **Short-run Affordability**
 - **Long-run Sustainability**
- **Efficiency**
 - **Cost Efficiency, Consistency and Transparency**
 - **Value for Money**
 - **Economic Efficiency**
- **Perceived Fairness & Equity**

For further details of the above criteria please see insert slide 49.

Exhibit 6

Potential Evaluation Criteria for A New Funding Model

- (1) **Legal compliance:** model is lawful in accordance with current relevant legislation, case law and general principles of administrative law. The model takes full account of the equality and diversity requirements on disability; ethnicity; gender; age; sexual orientation & religion or belief
- (2) **Comprehensiveness:** The model should have the capability of dealing with the funding requirements of the whole system
- (3) **Healthcare Need & Demand:** model has funding flexibility and responsiveness to changes in need and demand for healthcare. The model is effective in taking account of future changes in workforce planning and the career frameworks of the relevant occupations and roles. The model incentivises innovation in healthcare workforce education and training
- (4) **Student Recruitment and Retention:** model should be compatible with objectives to recruit and retain good quality students up to the point of qualification.
- (5) **Widening Participation:** model should be compatible with objectives to widen participation in healthcare programmes by students from a wide range of backgrounds.
- (6) **Funding adequacy:** funding levels should be adequate to ensure that the objectives of the funding can be fully met. These objectives include ensuring education outputs are of the requisite quality so that future needs of healthcare, particularly for excellent patient care, can be fully met. This also means that funding levels should adjust smoothly on an agreed basis to changes in costs.
- (7) **Funding Sustainability – Short-run Affordability:** Funding obligations (levies; contributions) should be within the ability of the responsible funders to pay when required to do so. Funding obligations should be within the designated capital and/or revenue budgets or options available for the economic securing of any additional funding required.
- (8) **Funding Sustainability – Long-run:** funding obligations and the risks associated with those obligations should be sustainable for the responsible funders over the long-term. Ability to pay should not be impaired by potential exogenous shocks or events, the potential negative impact of which are estimated to fall within the parameters agreed in ‘what if?’ stress tests.
- (9) **Efficiency - Cost efficiency, Consistency & Transparency:** model should be cost efficient to administer and manage. This includes administrative feasibility and the clarity of rules to the relevant stakeholders. The rules of the model should also be interpreted and applied consistently over time.
- (10) **Efficiency - Value for Money (VFM):** model should enable adequate VFM as measured by the proportion of students initially registered on a programme that enter healthcare employment after graduation, relative to the eventual employment outcomes in comparable occupation specific education programmes.
- (11) **Efficiency – Economic:** model should promote economic efficiency e.g. eliminate of free riding; promote improvement in economically rational healthcare workforce planning ; avoid resource market distortions associated with funding of education and training through general taxation; improve resource mix in the delivering of healthcare
- (12) **Perceived Fairness and Equity:** the funding obligations arising from application of the model are perceived by the key stakeholders to be fair and equitable

Alternative Futures: New Regime – A New Funding Model

Raw Evaluations

Using assumptions about costs per fte for nursing pre-registration education provision of the requisite quality, some initial evaluations of the status quo model and of 10 model options were made. These evaluations were made using 10 of the 12 criteria, and were ‘raw’ in that no weightings were given to individual criteria and no minimum thresholds were used. Further details of the results below are given in Walsh & Jelfs (2015)

Analysis of Initial Evaluations of Funding Models: Number of Criteria per Rating Parameter				
	Funding Models	Evaluation Criteria Rating Parameters		
		HIGH/POSITIVE	MEDIUM/NEUTRAL	LOW/NEGATIVE
0	Status Quo	4	1	5
1	Student Loans - Group B Tuition Fees plus Supplement	5	2	3
2	Student Loans - Group C Tuition Fees	4	2	4
3	Student Loans & Employer Levy (i) - Group B Tuition Fees plus Supplement	6	4	
4	Student Loans & Employer Levy (ii) - Group B Tuition Fees plus Supplement	7	3	
5	Private Providers Employers Levy	7	3	
6	Student Loans - Flexible Tuition Fees	4	3	3
7	Student Loans & Employer Levy - Flexible Tuition Fees	6	4	
8	Employer Levy & Government Grants (i) with fees cap	6	4	
9	Employer Levy & Government Grants (ii) with fees cap	7	3	
10	Private Providers Employers Levy with fees cap	7	3	

Alternative Futures: New Regime – A New Funding Model

Conclusions from Raw Evaluations

Walsh & Jelfs (2015), p. 40:

‘Ten funding model options in addition to the current, ‘status quo’, funding model were specified and initial, indicative, ‘raw’ evaluations of these models completed. The conclusions drawn from analysis of these initial evaluations were’:

- *‘The models based on capital financing may have substantial advantages over the current funding model, noting that the current model was evaluated to be deficient on 5 of the 10 evaluation criteria used to gauge the performance of the models.’*
- *‘It should be possible to reduce the current burden on the taxpayer while also effectively addressing the risks to the future quality of nursing, midwifery and AHP education and ultimately the quality of patient care.’*
- *‘However, there remain numerous issues for discussion and debate. These include:*
 - *Whether there are distinctive characteristics of the students on these courses that have a material bearing on the funding model*
 - *The merits or otherwise of a single versus a plural funding system*
 - *The articulation between a future funding system and workforce planning.*

Whatever the conclusion, however, we are convinced that an open debate and a strategic plan for transition, rather than continued ad hoc fragmentation, will better serve both students and ultimately patients’

Alternative Futures: New Regime – A New Funding Model

A HEFCE Contract Framework Scenario: Group B Tuition Fees plus Supplement – Model 1

TABLE 25: IOR Stability: Impacts 1995 - 2013; Health Education England and HEFCE Contracts & Prices Scenarios 2016/17

Key: Green = Stable; Amber = Threatening Entry to Range of Instability; Red = Unstable

		Stability Assessments						HEE IOR Contract Framework Scenario	Sources of Evidence of HEE IOR Contract Framework Scenario	HEFCE Contract Framework Scenario
		1995/ 1996	2004/ 2005	2005/ 2006	2007/ 2008	2008/ 2009	2012/ 2013	2016/2017		2016/2017
	<u>IOR Key Outcomes: COMPONENTS & Dimensions</u>									Assumptions: (i) Price Group B (ii) Price Group B = HEI FEC
	CONTRACTS									
1	Duration	\$	TRI	TRI	TRI	\$	TRI	\$	HEE Draft NSEFA 10/2013 - attachment to CoDH Email to BMP Steering Group 22/07/2014	\$
2	Termination	\$	\$	TRI	TRI	TRI	TRI	TRI	Ditto	\$
3	Compliance - Information; Management & Review	\$	\$	\$	\$	TRI	TRI	TRI	Ditto; UUK-CoDH note 'Reducing Burden' to HEE re Contract Quality Monitoring - 29/09/2014	\$
4	Placement Responsibilities	\$	\$	TRI	TRI	TRI	TRI	TRI	HEE Draft NSEFA 10/2013 - attachment to CoDH Email to BMP Steering Group 22/07/2014	\$
	OUTPUTS									
5	Output Specification	\$	\$	\$	\$	\$	\$	\$	Ditto	\$
6	Output Floors & Ceilings	\$	\$	TRI	TRI	TRI	TRI	TRI	Ditto	\$
7	Size of Short Run Variability of Output Quantities	\$	\$	\$	\$	\$	\$	\$	Forecast	\$
8	Trends in GM Demand for Output Quantities	\$	TRI	\$	TRI	TRI	TRI	\$	Forecast	\$
	PRICE									
9	Price - Innovation	TRI	TRI	TRI	TRI	TRI	\$	TRI	HEE Draft NSEFA 10/2013 - attachment to CoDH Email to BMP Steering Group 22/07/2014	TRI
10	Basis of Price - FEC	TRI	TRI	TRI	TRI	TRI	TRI	TRI	Ditto	\$
11	Basis of Price - OBC Risk	\$	\$	\$	\$	\$	\$	TRI	Ditto	\$
12	Actual Price v Supplier's FEC	U	U	U	U	U	\$	U	Ditto; MU Financial Report and Accounts 2013/14; MU NHS Contracts Financial Sustainability Assessment 2012-2015	\$
	PERFORMANCE									
13	Performance (i)	\$	\$	\$	\$	\$	\$	\$	Forecast	\$
14	Performance (ii)	TRI	TRI	TRI	TRI	TRI	TRI	U	Forecast; MU Financial Report and Accounts 2013/14; MU NHS Contracts Financial Sustainability Assessment 2012-2015	\$

Alternative Futures: New Regime – A New Funding Model

Recommendations

Walsh & Jelfs (2015), p. 41:

- *A new funding model for nursing, midwifery and AHP education is developed and implemented which improves on the current model and meets the future needs for improved quality and innovation in education and ultimately improved quality of patient care.*
- *To underpin any future model, a new zero-based costing exercise for pre-registration nursing, midwifery and AHP education should urgently be carried out in order to ensure that future decisions on funding levels and models are based on good evidence.*
- *To enable this, a co-ordinated programme of consultation with all key stakeholders and other relevant parties is initiated and managed to a conclusion.*
- *The consultation programme should include :*
 - *the identification of funding model options*
 - *the identification of model evaluation criteria, their relative weighting, and a minimum rating on each criterion that would satisfy screening*
 - *the stakeholder evaluations of agreed model options*
 - *the validation of those evaluations*
 - *exploration of the articulation between funding models and workforce planning.*
- *A project plan is devised and resourcing agreed for the consultation programme.*
- *The above is completed in time for implementation of an agreed new funding model to commence by no later than 2017/18.*
- *An important part of the implementation will be to ensure any new model arrangements are compatible with relevant management and accountability structures in the NHS and HE.*